

WBHM Radio

Financial Statements

September 30, 2007 and 2006

Report of Independent Auditors

To the Board of Directors of The University of Alabama

In our opinion, the accompanying statements of net assets and the related statements of revenues, expenses, and changes in net assets and of cash flows present fairly, in all material respects, the financial position of WBHM Radio ("WBHM"), a department of the University of Alabama at Birmingham ("UAB"), a campus of the University of Alabama System, at September 30, 2007 and 2006, and the changes in its financial position and cash flows 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 WBHM's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of WBHM are intended to present the financial position, the changes in its financial position and cash flows of only that portion of the University major fund of UAB, a campus of the University of Alabama System, that is attributable to the transactions of WBHM. They do not purport to, and do not, present fairly the financial position of UAB, a campus of the University of Alabama System, as of September 30, 2007 and 2006, the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

PricewaterhouseCoopers LLP

February 26, 2008

WBHM Radio

Management's Discussion and Analysis (Unaudited)

September 30, 2007 and 2006

WBHM Radio ("WBHM") is a not-for-profit radio station and is a department of the University of Alabama at Birmingham ("UAB"), which is a campus of the University of Alabama System (the "System"). UAB is one of three campuses of the System, which is a discretely presented component unit of the State of Alabama. The financial statements of WBHM are intended to present the financial position, the changes in net assets, and cash flows of only that portion of the University major fund of UAB that is attributable to the transactions of WBHM. As a department of UAB, a public institution, the financial statements of WBHM have been prepared in accordance with accounting principles generally accepted in the United States of America, as prescribed by the Governmental Accounting Standards Board ("GASB"). The main purpose of WBHM is to provide noncommercial public broadcasting and educational telecommunication services throughout the State of Alabama.

WBHM operates from a building on campus at UAB and provides noncommercial public broadcasting and educational telecommunications throughout Alabama. WBHM began broadcasting in December 1976 and was the first full-service public radio station in North Central Alabama. It operates at 90.3 FM with an effective radiated power of 32,000 watts. The transmitter is co-located with WBRC-TV on Red Mountain, in Birmingham. The broadcast service area covers a radius of almost 70 miles from Birmingham and serves a population of approximately 1,250,000. WBHM broadcasts seven days a week, twenty-four hours a day.

In 1993, through an agreement with Gadsden State Community College, WSGN at 91.5 FM in Gadsden, Alabama began rebroadcasting WBHM programming. This arrangement allowed WBHM to reach a broader service area and was the first time that the Gadsden area was able to receive full-service public radio programming.

WBHM, through the Alabama Radio Reading Service Network for the Print Impaired (ARRS) is able to provide local and national programming to blind and print handicapped Alabamians throughout Alabama. ARRS operates on a subcarrier of WBHM and is distributed across the state with technical assistance from Alabama Public Television.

The following discussion and analysis of WBHM's financial performance presents an overview of WBHM's financial activities for the fiscal years ended September 30, 2007 and 2006. This discussion and analysis has been prepared by management and should be read in conjunction with the accompanying audited financial statements and notes to the financial statements.

Financial Highlights

WBHM has continued to maintain a strong financial position as of September 30, 2007 and 2006 with assets of \$514,639 and \$438,213 and total liabilities of \$85,208 and \$58,322, respectively. Net assets, which represents the excess of total assets over total liabilities, increased by \$49,540 in fiscal year 2007 as compared to a fiscal year 2006 decrease of \$209,122. This change is summarized below:

	2007	2006
Operating revenues	\$ 1,617,655	\$ 1,425,479
Operating expenses	<u>1,732,978</u>	<u>1,765,126</u>
Loss before non-operating revenues (expenses) and transfers	(115,323)	(339,647)
Nonoperating items and transfers	<u>164,863</u>	<u>130,525</u>
Increase (decrease) in net assets	<u>\$ 49,540</u>	<u>\$ (209,122)</u>

WBHM reports as a business-type activity as defined by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as an amendment to GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Business-type activities are those that are financed in whole or in part by

WBHM Radio
Management's Discussion and Analysis (Unaudited)
September 30, 2007 and 2006

fees charged to external parties for goods or services. Accordingly, the financial statements of WBHM have been prepared using the economic resources 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 occurred (see Note 2 of the financial statements.)

Condensed Statements of Net Assets

	2007	2006
Assets		
Current assets	\$ 331,802	\$ 252,819
Noncurrent assets	182,837	185,394
Total assets	<u>\$ 514,639</u>	<u>\$ 438,213</u>
Liabilities and Net Assets		
Current liabilities	\$ 85,208	\$ 58,322
Noncurrent liabilities	-	-
Total liabilities	<u>85,208</u>	<u>58,322</u>
Net assets		
Total net assets	<u>429,431</u>	<u>379,891</u>
Total liabilities and net assets	<u>\$ 514,639</u>	<u>\$ 438,213</u>

Total assets increased 17.4% in 2007 from 2006. This is due to an increase in underwriting and membership revenue during the year, as well as a decrease in payments to vendors. This increase was offset by a decrease in grants receivable which declined by approximately \$42,000 during 2007 due to reduction in grants and expenditure of prior grants.

Total liabilities increased by 46.1% in 2007 from 2006. This is due to an increase in deferred revenue from grants and an increase in accounts payable for broadcasting.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2007	2006
Operating Revenue and Expenses		
Revenues	\$ 1,617,655	\$ 1,425,479
Expenses	1,732,978	1,765,126
Operating loss	(115,323)	(339,647)
Nonoperating Revenues (Expenses)		
State appropriations	15,046	28,623
Investment income	1,949	1,497
Loss on disposal of assets		(13,489)
Net nonoperating revenues (expenses)	<u>16,995</u>	<u>16,631</u>
Loss before transfers	(98,328)	(323,016)
Transfers from UAB	147,868	113,894
Increase (decrease) in net assets	49,540	(209,122)
Net Assets		
Net assets, beginning of year	<u>379,891</u>	<u>589,013</u>
Net assets, end of year	<u>\$ 429,431</u>	<u>\$ 379,891</u>

WBHM Radio
Management's Discussion and Analysis (Unaudited)
September 30, 2007 and 2006

The statement of revenues, expenses and changes in net assets shows operating and nonoperating revenues and expenses. A summarized comparison of WBHM's revenues, expenses and changes in net assets for the years ended September 30, 2007 and 2006 is presented on the previous page. WBHM's net assets increased by \$49,540 in fiscal year 2007 as compared to a fiscal year 2006 decrease of \$209,122. The fiscal year 2007 increase is due to an increase in underwriting and membership revenue as well as a decrease in payments to vendors. The fiscal year 2006 decrease is primarily attributable to a decrease in underwriting and membership revenues as well as an increase in salary and wage expense.

Factors Impacting Future Periods

Management is not aware of any known factors that would have a significant impact on future periods. However, private contributions are an important part of the fundamental support of WBHM. Economic pressures affecting donors may also affect the future level of support WBHM receives from private contributions. WBHM continues to receive support through grants from the Corporation for Public Broadcasting ("CPB") (a private non-profit corporation) and other community service grants.

WBHM Radio
Statements of Net Assets
September 30, 2007 and 2006

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 200,321	\$ 107,006
Accounts receivable, net	94,223	74,250
Pledges receivable	14,151	6,866
Grants receivable	23,107	64,697
Total current assets	<u>331,802</u>	<u>252,819</u>
Noncurrent assets		
Investments	50,000	25,000
Capital assets, net	131,837	158,394
Pledges receivable	1,000	2,000
Total noncurrent assets	<u>182,837</u>	<u>185,394</u>
Total assets	<u>\$ 514,639</u>	<u>\$ 438,213</u>
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued liabilities	\$ 64,851	\$ 49,769
Deferred revenue	20,357	8,553
Total liabilities	<u>85,208</u>	<u>58,322</u>
Net assets		
Unrestricted net assets	297,594	221,497
Invested in capital assets	131,837	158,394
Total net assets	<u>429,431</u>	<u>379,891</u>
Total liabilities and net assets	<u>\$ 514,639</u>	<u>\$ 438,213</u>

The accompanying notes are an integral part of these financial statements.

WBHM Radio
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended September 30, 2007 and 2006

	2007	2006
Operating Revenues		
Membership contributions	\$ 724,688	\$ 605,618
Community service grants	249,974	256,335
Program production grants	26,302	40,088
Program underwriting	576,291	499,489
Other	40,400	23,949
	<u>1,617,655</u>	<u>1,425,479</u>
Operating Expenses		
Programming and production	580,773	559,368
Broadcasting	127,929	96,428
Fundraising and membership development	180,346	200,471
Underwriting	223,956	234,130
Management and general	593,417	644,230
Depreciation	26,557	30,499
	<u>1,732,978</u>	<u>1,765,126</u>
Total operating expenses	<u>1,732,978</u>	<u>1,765,126</u>
Operating loss	<u>(115,323)</u>	<u>(339,647)</u>
Non-Operating Revenues (Expenses)		
State appropriations	15,046	28,623
Investment income	1,949	1,497
Loss on disposal of assets	-	(13,489)
	<u>(98,328)</u>	<u>(323,016)</u>
Loss before transfers	<u>(98,328)</u>	<u>(323,016)</u>
Transfers from UAB	147,868	113,894
	<u>49,540</u>	<u>(209,122)</u>
Increase (decrease) in net assets	<u>49,540</u>	<u>(209,122)</u>
Net assets, beginning of year	379,891	589,013
	<u>379,891</u>	<u>589,013</u>
Net assets, end of year	<u>\$ 429,431</u>	<u>\$ 379,891</u>

The accompanying notes are an integral part of these financial statements.

WBHM Radio
Statements of Cash Flows
Years Ended September 30, 2007 and 2006

	2007	2006
Cash flows from operating activities		
Membership contributions	\$ 718,403	\$ 613,684
Community service grants	260,131	241,768
Program production grants	56,969	3,495
Program underwriting	557,052	503,639
Other	40,400	23,949
Payments to employees	(898,123)	(896,166)
Payments to vendors	(633,512)	(715,008)
Net cash provided by (used in) operating activities	<u>101,320</u>	<u>(224,639)</u>
Cash flows from noncapital financing activities		
State appropriations	<u>15,046</u>	<u>28,623</u>
Net cash provided by noncapital financing activities	<u>15,046</u>	<u>28,623</u>
Cash flows from investing activities		
Purchase of investments	(25,000)	-
Investment income	<u>1,949</u>	<u>1,497</u>
Net cash (used in) provided by investing activities	<u>(23,051)</u>	<u>1,497</u>
Net increase (decrease) in cash and cash equivalents	93,315	(194,519)
Cash and cash equivalents, beginning of year	<u>107,006</u>	<u>301,525</u>
Cash and cash equivalents, end of year	<u>\$ 200,321</u>	<u>\$ 107,006</u>
Reconciliation of operating loss to net cash used in operating activities		
Operating loss	\$ (115,323)	\$ (339,647)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation	26,557	30,499
Operating expenses provided by UAB	147,868	113,894
Changes in operating assets and liabilities		
Accounts receivable, pledges receivable, and grants receivable	15,332	(16,482)
Accounts payable	15,082	9,559
Deferred revenue	<u>11,804</u>	<u>(22,462)</u>
Net cash used in operating activities	<u>\$ 101,320</u>	<u>\$ (224,639)</u>

The accompanying notes are an integral part of these financial statements.

WBHM Radio

Notes to Financial Statements

September 30, 2007 and 2006

1. Organization and Relationship to The University of Alabama at Birmingham

WBHM Radio ("WBHM") is a not-for-profit radio station and is a department of the University of Alabama at Birmingham ("UAB"), which is a campus of the University of Alabama System (the "System"). UAB is one of three campuses of the System, which is a discretely presented component unit of the State of Alabama. The financial statements of WBHM are intended to present the financial position, the changes in net assets, and cash flows of only that portion of the University major fund of UAB that is attributable to the transactions of WBHM.

WBHM operates from a building on campus at UAB and provides noncommercial public broadcasting and educational telecommunications throughout Alabama. WBHM began broadcasting in December 1976 and was the first full-service public radio station in North Central Alabama. It operates at 90.3 FM with an effective radiated power of 32,000 watts. The transmitter is co-located with WBRC-TV on Red Mountain, in Birmingham. The broadcast service area covers a radius of almost 70 miles from Birmingham and serves a population of approximately 1,250,000. WBHM broadcasts seven days a week, twenty-four hours a day.

In 1993, through an agreement with Gadsden State Community College, WSGN at 91.5 FM in Gadsden, Alabama began rebroadcasting WBHM programming. This arrangement allowed WBHM to reach a broader service area and was the first time that the Gadsden area was able to receive full-service public radio programming.

WBHM, through the Alabama Radio Reading Service Network for the Print Impaired (ARRS) is able to provide local and national programming to blind and print handicapped Alabamians throughout Alabama. ARRS operates on a subcarrier of WBHM and is distributed across the state with technical assistance from Alabama Public Television.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of WBHM have been prepared 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 GASB pronouncements as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") Opinions, issued on or before November 30, 1989. WBHM has elected not to apply FASB pronouncements issued after November 30, 1989.

WBHM reports as a business-type activity as defined by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, as an amendment to GASB 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the financial statements of WBHM have been prepared using the economic resources 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 occurred. Refer also to the "Revenue Recognition" section of this Note.

WBHM Radio

Notes to Financial Statements

September 30, 2007 and 2006

Net Assets

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

- **Unrestricted:** Net assets; including membership contributions, underwriting revenues, state appropriations, and certain grant proceeds; that are neither subject to externally imposed stipulations nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management.
- **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. WBHM did not have capital related debt as of September 30, 2007 and 2006.
- **Restricted:** WBHM classifies net assets resulting from transactions with purpose or time restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact. Restricted net assets are further classified as follows:

Nonexpendable - Net assets subject to externally imposed stipulations that they be maintained permanently by WBHM. WBHM did not have restricted nonexpendable net assets as of September 30, 2007 and 2006.

Expendable - Net assets, principally certain grant proceeds, whose use by WBHM is subject to externally imposed stipulations that can be fulfilled by actions of WBHM pursuant to those stipulations or that expire by the passage of time. WBHM did not have restricted expendable net assets at September 30, 2007 and 2006.

Cash and Cash Equivalents

WBHM considers cash on hand and in banks and all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable consists primarily of amounts due for underwriting services. Accounts receivable are recorded net of estimated uncollectible amounts. WBHM did not have receivables estimated as uncollectible as of September 30, 2007 and 2006. All balances are expected to be received within one year.

Pledges Receivable

WBHM receives pledges and bequests of financial support and has elected not to discount such receivables. 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 as all balances are expected to be received within one year.

Grants Receivable

Grants receivable consists of amounts due from organizations, including the Corporation for Public Broadcasting ("CPB"), which support WBHM. All balances are expected to be received within one year.

WBHM Radio

Notes to Financial Statements

September 30, 2007 and 2006

Investment

WBHM's investment represents an amount invested in a commingled investment pool sponsored by The University of Alabama System. The pool, The University of Alabama Pooled Endowment Fund, is considered an "internal" investment pool of the System. The value of the investment in the pool is determined by the System and based on WBHM's proportionate share of the net asset value of the investment pool. The investment pool invests in various investment securities, including both marketable and non-marketable securities. The pool's investments in marketable securities are recorded at fair value. The pool values investments which do not have readily determinable market values at cost. All investment income is reported as nonoperating revenue in the statements of revenues, expenses, and changes in net assets.

Capital Assets

Capital assets consist of land, buildings and improvements, broadcast equipment and satellite equipment. Equipment is recorded at cost at the date of acquisition, less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which is 12 - 40 years for building and building improvements and 5 - 10 years for equipment. Gain or loss on the disposition of capital assets is reflected in the statements of revenues, expenses and changes in net assets, and the related asset cost and accumulated depreciation are removed from the respective accounts. Depreciation expense for the years ended September 30, 2007 and 2006 was \$26,557 and \$30,499, respectively.

Revenue Recognition

Membership contributions are non-exchange transactions which are recognized as operating revenues in the period they are received.

Community service and program production grants represent non-exchange transactions and are recognized in accordance with GASB Statement No. 33, based on the terms of the individual grant agreement.

Program underwriting revenue is reported as deferred revenue in the statements of net assets for programs not yet broadcasted. Revenue is recognized when the related program is aired.

During 2007 and 2006, WBHM recognized other revenue from ticket sales for a live performance of Capital Steps, a special program that is aired on National Public Radio and broadcasted by WBHM.

State appropriations are recorded when all eligibility requirements have been met as nonoperating revenue in the statement of revenue, expenses and changes in net assets.

Operating Revenues and Expenses

WBHM's statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenue and expenses. Operating revenues and expenses result from exchange transactions associated with WBHM's principal activities. Nonexchange revenues and expenses that result from financing and investing activities are recorded as non-operating.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

WBHM Radio

Notes to Financial Statements

September 30, 2007 and 2006

New Accounting Pronouncements

GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Other Than Pensions*, was issued by the GASB in July 2004. This statement requires governmental entities to recognize and match other post employment benefit costs, for example health and life insurance expense, with related services received and also to provide information regarding the actuarial accrued liability and funding level of the benefits associated and past services. GASB Statement No. 45 will be effective for financial statement periods beginning after December 15, 2006. The impact that GASB Statement No. 45 will have on WBHM's financial statements is currently being evaluated by UAB. UAB is still evaluating the impact of implementation of GASB 45 on its other retirement plans. WBHM and UAB are adopting GASB 45 for fiscal year ending September 30, 2008.

3. Investments

At September 30, 2007 and 2006, the investments held by WBHM were as follows:

	2007	2006
Investment in The University of Alabama Pooled Endowment Fund	\$ 50,000	\$ 25,000

The Board of Trustees of the University of Alabama (the "Board") has the responsibility for the establishment of the investment policy and the oversight of the investments for the System and various related entities. In order to facilitate System-wide investment economics and objectives, the Board has established four distinct investment pools based primarily on the projected investment time-horizons for cash reserves. One of these pools is The University of Alabama Pooled (the "Endowment Fund"). These investment pools 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 basis.

The purpose of the Endowment Fund is to pool endowment and similar funds to support the University of Alabama 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 principle 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.

The increase in the fair value of investments includes all changes in fair value, including both realized and unrealized gains and losses that occurred during the year. The calculation of realized gains and losses is independent of the net unrealized appreciation or depreciation in the fair value of investments held at year-end. Realized gains and losses on investments held for more than one fiscal year and sold in the current year are included as a change in the fair value of investments.

WBHM Radio
Notes to Financial Statements
September 30, 2007 and 2006

The composition of investments, by investment type, for all participants in the Endowment Fund at September 30, 2007 and 2006 is as follows:

	2007	2006
Accrued income receivable		
Accrued income receivable	\$ 1,221,001	\$ 981,140
Total accrued income receivable	<u>1,221,001</u>	<u>981,140</u>
Cash and equivalents		
Money market funds	<u>25,301,538</u>	<u>7,574,688</u>
Total cash and equivalents	<u>25,301,538</u>	<u>7,574,688</u>
Equities		
Common stock	<u>115,871,028</u>	<u>123,226,310</u>
Total equities	<u>115,871,028</u>	<u>123,226,310</u>
Fixed income securities		
US government obligations	10,835,836	16,359,318
Mortgage backed securities	18,017,647	3,069,336
Collateralized mortgage obligations	3,472,960	8,254,290
Corporate bonds	<u>8,871,505</u>	<u>9,740,519</u>
Total fixed income securities	<u>41,197,948</u>	<u>37,423,463</u>
Commingled funds		
US equity funds	213,441,109	278,168,873
Non-US equity funds	256,757,331	149,893,182
US bond funds	83,077,595	121,167,857
Non-US bond funds	49,402,104	
Hedge funds	141,886,286	73,778,807
Private equity funds	26,113,788	20,670,306
Timberland funds	9,675,974	10,000,141
Real estate funds	<u>10,000,274</u>	<u>5,899,508</u>
Total commingled funds	<u>790,354,461</u>	<u>659,578,674</u>
Total fund investments	<u>\$ 972,724,975</u>	<u>\$ 827,803,135</u>
Total fund assets	<u>\$ 973,945,976</u>	<u>\$ 828,784,275</u>
Total fund liabilities	<u>\$ (180,246)</u>	<u>\$ (215,789)</u>
Affiliated entity investment in fund	<u>\$ (102,467,093)</u>	<u>\$ (87,266,923)</u>
Total net asset value	<u>\$ 871,298,637</u>	<u>\$ 741,301,563</u>

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 obligation of the U.S. government or those explicitly guaranteed by the U.S. government, are not considered to have credit risk.

WBHM Radio
Notes to Financial Statements
September 30, 2007 and 2006

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

Credit risk in the Endowment Fund is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. Under Board policy, fixed income holdings in a single entity (excluding obligations of the U.S. government and its agencies) may not exceed 6% of a manager's portfolio measured at market value. At least 95% of these fixed income investments must be in investment grade securities (securities with ratings of BBB- or Baa3 or higher). However, multi-strategy fixed income managers may have up to 20% of their investments in non-investment grade securities. Securities of foreign entities either denominated in U.S. dollars or other currencies are limited to 20% of a manager's portfolio. For the Endowment Fund, 15% of the fund is committed to fixed income investments, of which, 5% are actively managed. Fixed income investments include corporate, mortgage backed, asset backed and U.S. treasury and /or agency bonds with a minimum BBB- rating and an average duration of four years.

The credit risk for fixed and variable income securities in the Endowment Fund at September 30, 2007 and 2006 is as follows:

	2007	2006
Fixed or variable income securities		
US government guaranteed	\$ 10,835,836	\$ 16,359,318
Other US denominated		
AAA	303,171	499,000
AA	1,217,858	1,191,000
A	6,243,356	6,139,000
BBB	1,704,973	1,688,000
Unrated	20,892,754	11,547,145
Commingled funds		
US bond funds - unrated	83,077,595	121,167,857
Non-US bond funds - unrated	49,402,104	-
Money market funds - unrated	25,301,538	7,574,688
Total	<u>\$ 198,979,185</u>	<u>\$ 166,166,008</u>

Custodial Credit Risk

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

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

WBHM Radio
Notes to Financial Statements
September 30, 2007 and 2006

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 the Endowment Fund is managed primarily by diversifying across issuers and limiting the amount of portfolio assets that can be invested in non-investment grade securities. As of September 30, 2007 and 2006, there was no investment in a single issuer that represents 5 percent or more of total investments held in the System pools or UAB's separately held investments.

Interest Rate Risk

Interest rate risk is the risk that the value of fixed income securities will decline because of changing interest rates. The prices of fixed income securities with a longer time to maturity 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 points (one percentage point) change in the level of interest rates. It is not a measurement of time. There is no specific policy relative to interest rate risk on the Endowment Fund. As such, there are no restrictions on weighted average maturity for each portfolio as they are managed relative to the investment objectives and liquidity demands of the investors. The effective durations for fixed or variable income securities for the Endowment Fund at September 30, 2007 and 2006 are as follows:

	2007	2006
US government obligations	4.7	5.7
Corporate bonds	5.4	4.7
Commingled bond funds	4.6	5.2

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

Investments may also include mortgage pass through securities and collateralized mortgage obligations that may be considered to be highly sensitive to changes in interest rates due to the existence of prepayment or conversion features. At September 30, 2007 and 2006 the market value of the mortgage backed securities in the Endowment Fund was \$18,017,647 and \$3,069,336, and the market value of collateralized mortgage obligations was \$3,472,960 and \$8,254,290, respectively. Mortgage backed securities are issued by the Federal National Mortgage Association (Fannie Mae), Government National Mortgage Association (Ginnie Mae) and Federal Home Loan Mortgage Association (Freddie Mac) and include short embedded prepayment options. Unanticipated prepayments by the obligees of the underlying asset reduces the total expected rate of return. Collateralized mortgage obligations ("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, 2007 and 2006, the effective durations for these securities held in the Endowment Fund are as follows:

	2007	2006
Mortgage backed securities	3.5	3.4
Collateralized mortgage obligations	3.8	-

WBHM Radio
Notes to Financial Statements
September 30, 2007 and 2006

Foreign Currency Risk

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

4. Capital Assets

WBHM's capital asset activity for the years ended September 30, 2007 and 2006 is summarized as follows:

September 30, 2007	Beginning	Additions	Retirements	Ending
Land	\$ 25,669			\$ 25,669
Building and building improvements	155,290			155,290
Equipment	518,675			518,675
	699,634	-	-	699,634
Less accumulated depreciation	(541,240)	(26,557)		(567,797)
Capital assets, net	\$ 158,394	\$ (26,557)	\$ -	\$ 131,837

September 30, 2006	Beginning	Additions	Retirements	Ending
Land	\$ 25,669			\$ 25,669
Building and building improvements	155,290			155,290
Equipment	656,834		(138,159)	518,675
	837,793	-	(138,159)	699,634
Less accumulated depreciation	(635,411)	(30,499)	124,670	(541,240)
Capital assets, net	\$ 202,382	\$ (30,499)	\$ (13,489)	\$ 158,394

Effective October 1, 2005, WBHM changed its equipment capitalization threshold from \$2,000 to \$5,000. As a result of this change, \$13,489 in net book value of equipment was written off by WBHM during 2006.

5. Compensated Absences

Certain WBHM employees accumulate vacation and sick leave at varying rates depending upon their years of continuous service and their payroll classification, subject to maximum limitations. Upon termination of employment, employees are paid all unused accrued vacation at their regular rate of pay up to a designated maximum number of days. In accordance with GASB Statement No. 16, *Accounting for Compensated Absences*, the accounts payable and accrued liabilities balance on the statements of net assets includes an accrual of \$11,383 and \$23,750 as of September 30, 2007 and 2006, respectively, for accrued vacation pay and salary-related payments associated with vacation

WBHM Radio

Notes to Financial Statements

September 30, 2007 and 2006

pay. There is no such accrual recognized for sick leave benefits because there is no terminal cash benefit available to employees for accumulated sick leave.

6. Employee Retirement Benefits

Retirement and Pension Plans

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

Participants in TRS who retire at age 60 with 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly for life. Service retirement benefits are calculated by three methods, with the participants receiving payments under the method which yields the highest monthly benefit. These methods include (1) minimum guaranteed, (2) monthly purchase, or (3) formula. Under the formula method, participants are allowed 2.0125% of their final average salary (average of three highest years of annual compensation during the last 10 years of service) for each year of service. A participant terminating before reaching retirement age, but after completing 10 years of credited service, is eligible for a vested allowance at age 60 provided accumulated employee contributions are not withdrawn. TRS also provides death and disability benefits.

Covered employees are required by law to contribute to TRS. WBHM, as the employer, contributes to TRS through UAB. The contribution requirement for WBHM for fiscal year 2007 was \$98,237 which consisted of \$64,684 from WBHM and \$34,553 from employees. The contribution requirement for WBHM for fiscal year 2006 was \$90,333 which consisted of \$56,038 from WBHM and \$34,295 from employees. WBHM's contribution was 9.36% and 8.17% of salaries and wages for covered employees in 2007 and 2006, respectively, which represents 100% of the required contribution. The contribution by employees is 5% of earned compensation. All regular employees of WBHM are members of TRS, with the exception of temporary employees who, by definition, are those employees hired for a predetermined period of employment of less than one year and employees working less than one half of a regular schedule.

The 10-year historical trend information shows TRS's progress in accumulating sufficient assets to pay benefits when due and the significant actuarial assumptions used to compute the pension benefit obligation, including the discount rate, projected salary increases, and postretirement benefit increases presented in the September 30, 2006, annual financial report of the TRS. That report is publicly available and may be obtained by contacting TRS.

As previously noted, some employees participate in the optional TIAA-CREF programs, which are defined contribution plans. In defined contribution plans, benefits depend solely on amounts contributed plus investment earnings. All full-time regular monthly employees are eligible to participate from the date of employment. WBHM contributes a matching amount of up to 5% of total salaries for participating employees. WBHM's contribution is funded as it accrues and, along with that of the employee, is immediately and fully vested. The contributions for both fiscal year 2007 and 2006, excluding employee amounts not eligible for matching, were \$10,606 which included \$5,303 each from WBHM and its employees.

WBHM Radio

Notes to Financial Statements

September 30, 2007 and 2006

WBHM's total salaries and wages for fiscal years 2007 and 2006 was \$706,613 and \$710,860, respectively. Total salaries and wages during fiscal years 2007 and 2006 for covered employees participating in TRS was \$691,066 and \$685,902, respectively. Total salaries and wages during fiscal years 2007 and 2006 for covered employees participating in TIAA-CREF was \$236,380 each year.

Postretirement Benefits

Certain retired employees may elect to continue to participate in UAB's group health plan until they are eligible for Medicare by paying the full cost of the plan premium. Retired employees age 65 or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer and UAB's health care plan becomes the secondary insurer. Despite the availability of the UAB plan, most retirees elect to participate in the Public Education Employees Health Insurance Plan ("PEEHIP") with TRS, in which case the retirees pay their premiums directly to TRS.

Certain retirees may also elect to continue their basic term life insurance coverage and accidental death and dismemberment insurance up to certain maximum amounts. The retirees pay the full amount of the premiums in such cases. Retirees are not eligible for tuition assistance benefits themselves. However, their unmarried dependent children may qualify in some cases.

7. Related Party Transactions

WBHM receives indirect support from UAB which consists of allocated institutional administrative and physical plant costs incurred by UAB for which WBHM receives benefits. The cost of this support was \$147,868 and \$113,894 for the years ended September 30, 2007 and 2006, respectively. This cost is recognized in the statements of revenues, expenses, and changes in net assets as an expense in the management and general expense category and as transfers from UAB.