

WBHM RADIO
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

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INDEPENDENT AUDITORS' REPORT

March 9, 2009

Board of Directors of the University of Alabama
Birmingham, Alabama

We have audited the accompanying statement of net assets of WBHM Radio (WBHM), a department of the University of Alabama at Birmingham (UAB), a campus of the University of Alabama System, as of September 30, 2008, and the related statements of revenues, expenses and changes in net assets and cash flows for the year then ended. 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. The financial statements of WBHM, as of September 30, 2007, were audited by other auditors whose report dated February 26, 2008, expressed an unqualified opinion on those financial statements.

We conducted our audit 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 A, 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 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, 2008 and 2007, the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Directors of the University of Alabama
March 9, 2009

In our opinion, the 2008 financial statements referred to above present fairly, in all material respects, the financial position of WBHM Radio at September 30, 2008, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis (unaudited) on pages 6 through 10 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.

Birmingham, Alabama

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

**WBHM RADIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2008**

WBHM Radio (WBHM) is a not-for-profit radio station licensed to the Board of Trustees of the University of Alabama for the University of Alabama at Birmingham (UAB). WBHM is accounted for as a department of 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 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).

WBHM operates from a building on campus at UAB and its main purpose is to provide noncommercial public broadcasting and educational telecommunications services 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, 24 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 the state. 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, 2008 and 2007. This discussion and analysis has been prepared by management and should be read in conjunction with the accompanying audited financial statements and notes to financial statements.

**WBHM RADIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2008**

Financial Highlights

WBHM has continued to maintain a strong financial position as of September 30, 2008 and 2007, with assets of \$416,088 and \$514,639, respectively, and total liabilities of \$61,008 and \$85,208, respectively. Net assets, which represent the excess of total assets over total liabilities, decreased by \$74,351 in fiscal year 2008 as compared to a fiscal year 2007 increase of \$49,540. This change is summarized below:

	2008	2007
Operating revenues	\$ 1,474,004	\$ 1,617,655
Operating expenses	<u>1,676,657</u>	<u>1,732,978</u>
Operating Loss	(202,653)	(115,323)
Nonoperating items and transfers	<u>128,302</u>	<u>164,863</u>
Change in net assets	<u>\$ (74,351)</u>	<u>\$ 49,540</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 Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the financial statements of 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 B of the financial statements).

WBHM RADIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2008

Condensed Statements of Net Assets

	2008	2007
Assets:		
Capital assets	\$ 105,280	\$ 131,837
Other assets	<u>310,808</u>	<u>382,802</u>
Total assets	<u>\$ 416,088</u>	<u>\$ 514,639</u>
Liabilities:		
Current liabilities	<u>\$ 61,008</u>	<u>\$ 85,208</u>
Total liabilities	<u>\$ 61,008</u>	<u>\$ 85,208</u>
Net assets:		
Unrestricted	\$ 249,800	\$ 297,594
Invested in capital assets	<u>105,280</u>	<u>131,837</u>
Total net assets	<u>\$ 355,080</u>	<u>\$ 429,431</u>

Total assets decreased 19.1 percent in 2008 from 2007. This is due primarily to a decrease in accounts receivable for underwriting and membership revenue during the year and a decrease in grants receivable of approximately \$13,600 due to reductions in grants and expenditure of prior grants. Total assets increased by 17.4 percent in 2007 from 2006. This was due to an increase in underwriting and membership revenue during that year as well as a decrease in payments to vendors. This increase was offset by a decrease in grants receivable of approximately \$42,000 due to reductions in grants and expenditure of prior grants.

Total liabilities decreased by 28.4 percent in 2008 from 2007. This is due to a decrease in deferred revenue from grants and a decrease in accounts payable for broadcasting. The decrease was offset by an increase in accrued vacation for employees, which increased by approximately \$26,000 during 2008. Total liabilities increased by 46.1 percent in 2007 from 2006. This was due to an increase in deferred revenue from grants and an increase in accounts payable for broadcasting.

WBHM RADIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2008

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	2008	2007
Operating revenues and expenses:		
Revenues	\$ 1,474,004	\$ 1,617,655
Expenses	<u>1,676,657</u>	<u>1,732,978</u>
Operating loss	(202,653)	(115,323)
Nonoperating revenues and expenses:		
State appropriations	13,015	15,046
Investment income	<u>2,764</u>	<u>1,949</u>
Total nonoperating revenues and expenses	<u>15,779</u>	<u>16,995</u>
Loss before transfers	(186,874)	(98,328)
Transfers from UAB	<u>112,523</u>	<u>147,868</u>
Change in net assets	(74,351)	49,540
Net assets:		
Net assets - beginning of year	<u>429,431</u>	<u>379,891</u>
Net assets - end of year	<u>\$ 355,080</u>	<u>\$ 429,431</u>

The statements of revenues, expenses and changes in net assets show 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, 2008 and 2007, is presented above. WBHM's net assets decreased by \$74,351 in fiscal year 2008 as compared to a fiscal year 2007 increase of \$49,540. During fiscal year 2008 the overall decrease in net revenues is primarily attributable to a decline in overall revenues of 8.9 percent offset somewhat by a 3.2 percent decrease in operating expenses. The fiscal year 2007 increase is primarily attributable to an increase in underwriting and membership revenue as well as a decrease in payments to vendors.

WBHM RADIO
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
SEPTEMBER 30, 2008

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 nonprofit corporation) and other community service grants.

AUDITED FINANCIAL STATEMENTS

WBHM RADIO
STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2008 AND 2007

ASSETS	2008	2007
Current Assets		
Cash and cash equivalents	\$ 144,054	\$ 200,321
Accounts receivable, net	78,567	94,223
Pledges receivable	6,557	14,151
Grants receivable	9,504	23,107
Prepaid expenses	22,126	-
	260,808	331,802
Total Current Assets		
Noncurrent Assets		
Investments	50,000	50,000
Capital assets, net	105,280	131,837
Pledges receivable	-	1,000
	155,280	182,837
Total Noncurrent Assets		
	\$ 416,088	\$ 514,639
Total Assets		
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 50,259	\$ 64,851
Deferred revenue	10,749	20,357
	61,008	85,208
Total Current Liabilities		
Net Assets		
Unrestricted net assets	249,800	297,594
Invested in capital assets	105,280	131,837
	355,080	429,431
Total Net Assets		
	\$ 416,088	\$ 514,639
Total Liabilities and Net Assets		

See notes to financial statements.

WBHM RADIO
STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
Operating Revenues		
Membership contributions	\$ 690,111	\$ 724,688
Community service grants	199,408	249,974
Program production grants	12,733	26,302
Program underwriting	493,294	576,291
Other	78,458	40,400
	1,474,004	1,617,655
Operating Expenses		
Programming and production	623,235	580,773
Broadcasting	82,309	127,929
Fund-raising and membership development	175,635	180,346
Underwriting	216,018	223,956
Management and general	552,903	593,417
Depreciation	26,557	26,557
	1,676,657	1,732,978
Operating Loss	(202,653)	(115,323)
Nonoperating Revenues and Expenses		
State appropriations	13,015	15,046
Investment income	2,764	1,949
	15,779	16,995
Loss before Transfers	(186,874)	(98,328)
Transfers from UAB	112,523	147,868
Change in Net Assets	(74,351)	49,540
Net Assets - beginning of year	429,431	379,891
Net Assets - end of year	\$ 355,080	\$ 429,431

See notes to financial statements.

WBHM RADIO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
Cash Flows from Operating Activities		
Membership contributions	\$ 698,705	\$ 718,403
Community service grants	210,967	260,131
Program production grants	3,129	56,969
Program underwriting	510,990	557,052
Other	78,458	40,400
Payments to employees	(882,132)	(898,123)
Payments to vendors	(692,163)	(633,512)
	<u>(72,046)</u>	<u>101,320</u>
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Noncapital Financing Activities		
State appropriations	<u>13,015</u>	<u>15,046</u>
Net Cash Provided by Noncapital Financing Activities	13,015	15,046
Cash Flows from Investing Activities		
Purchase of investments	-	(25,000)
Investment income	<u>2,764</u>	<u>1,949</u>
Net Cash Provided (Used) by Investing Activities	<u>2,764</u>	<u>(23,051)</u>
Net Change in Cash and Cash Equivalents	(56,267)	93,315
Cash and Cash Equivalents - beginning of year	<u>200,321</u>	<u>107,006</u>
Cash and Cash Equivalents - end of year	<u>\$ 144,054</u>	<u>\$ 200,321</u>

WBHM RADIO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 2008 AND 2007
(Continued)

	2008	2007
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities		
Operating loss	\$ (202,653)	\$ (115,323)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	26,557	26,557
Operating expenses provided by UAB	112,523	147,868
Change in accounts receivable, pledges receivable and grants receivable	37,853	15,332
Change in accounts payable and accrued liabilities	(14,592)	15,082
Change in prepaid expenses	(22,126)	-
Change in deferred revenue	(9,608)	11,804
	(9,608)	11,804
Net Cash Provided (Used) by Operating Activities	\$ (72,046)	\$ 101,320

See notes to financial statements.

**WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE A - ORGANIZATION AND RELATIONSHIP TO THE UNIVERSITY OF ALABAMA AT BIRMINGHAM

WBHM Radio (WBHM) is a not-for-profit radio station licensed to the Board of Trustees of the University of Alabama for the University of Alabama at Birmingham (UAB). WBHM is accounted for as a department of 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 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, 24 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 the state. ARRS operates on a subcarrier of WBHM and is distributed across the state with technical assistance from Alabama Public Television.

WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE B - 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 Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Business-type activities are those that are financed in whole or in part by fees charged to external parties for goods or services. Accordingly, the financial statements of 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.

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, 2008 and 2007.

WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

- 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:
 - (1) 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, 2008 and 2007.
 - (2) 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, 2008 and 2007.

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 consist primarily of amounts due for underwriting services. Accounts receivable are recorded net of estimated uncollectible amounts. WBHM did not have any receivables estimated as uncollectible as of September 30, 2008 and 2007. 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 consist of amounts due from organizations, including the Corporation for Public Broadcasting (CPB), which supports WBHM. All balances are expected to be received within one year.

WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

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 nonmarketable 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, 2008 and 2007, was \$26,557 and \$26,557, respectively.

Revenue Recognition

Membership contributions are nonexchange transactions, which are recognized as operating revenues in the period they are received. Community service and program production grants represent nonexchange 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 2008 and 2007, WBHM recognized other revenue from ticket sales for live performances of special programs that were aired on National Public Radio and broadcast by WBHM.

WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -
Continued

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

Operating Revenues and Expenses

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

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.

New Accounting Pronouncements

GASB Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*, was issued by GASB in July 2004. This statement requires governmental entities to recognize and match other postemployment 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 is effective for financial statement periods beginning after December 15, 2006. WBHM and UAB adopted GASB Statement No. 45 for the fiscal year ended September 30, 2008. There was not a material impact on WBHM's financial statements from the adoption of this statement.

NOTE C - INVESTMENTS (UNAUDITED)

At September 30, 2008 and 2007, the investments held by WBHM were as follows:

	2008	2007
Investment in the University of Alabama Pooled Endowment Fund	\$ 50,000	\$ 50,000

WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE C - INVESTMENTS (UNAUDITED) - Continued

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 Endowment Fund (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 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.

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, 2008

NOTE C - INVESTMENTS (UNAUDITED) - Continued

The composition of investments, by investment type, for all participants in the Endowment Fund at September 30, 2008 and 2007, is as follows:

	2008	2007
Accrued income receivable	<u>\$ 999,238</u>	<u>\$ 1,221,001</u>
Cash and equivalents:		
Money market funds	\$ 5,615,914	\$ 25,301,538
Equities:		
U.S. common stock	55,668,249	67,292,860
Non-U.S. stock	<u>5,684,166</u>	<u>7,347,139</u>
	61,352,415	74,639,999
Fixed income securities:		
U.S. Government obligations	11,602,531	10,835,836
Mortgage-backed securities	27,790,776	18,017,647
Collateralized mortgage obligations	3,755,744	3,472,960
Corporate bonds	<u>17,049,235</u>	<u>8,871,505</u>
	60,198,286	41,197,948
Commingled funds:		
U.S. equity funds	159,917,048	213,441,109
Non-U.S. equity funds	199,693,579	256,757,331
U.S. bond funds	57,529,479	83,077,595
Non-U.S. bond funds	53,291,125	49,402,104
Hedge funds	128,532,775	141,886,286
Private equity funds	42,024,540	26,113,788
Timberland funds	8,527,229	9,675,974
Real estate funds	<u>70,317,580</u>	<u>51,231,303</u>
	<u>719,833,355</u>	<u>831,585,490</u>
Total fund investments	<u>\$ 846,999,970</u>	<u>\$ 972,724,975</u>

**WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE C - INVESTMENTS (UNAUDITED) - Continued

	2008	2007
Total fund assets	\$ 847,999,208	\$ 973,945,976
Total fund liabilities	(183,225)	(180,246)
Affiliated entity investment in fund	<u>(103,271,212)</u>	<u>(102,467,093)</u>
Total net asset value	<u>\$ 744,544,771</u>	<u>\$ 871,298,637</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 obligations of the U.S. Government or those explicitly guaranteed by the U.S. Government, are not considered to have credit risk.

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

WBHM RADIO
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE C - INVESTMENTS (UNAUDITED) - Continued

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 noninvestment-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 five percent of a manager's portfolio measured at market value. At least 95 percent of these fixed income investments must be in investment-grade securities (securities with ratings to BBB- or Baa3 or higher). However, multistrategy fixed income managers may have up to 20 percent of their investments in noninvestment-grade securities. Securities of foreign entities either denominated in U.S. dollars or other currencies are limited to 20 percent of a manager's portfolio. 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, 2008 and 2007, is as follows:

	2008	2007
Fixed or variable income securities:		
U.S. Government guaranteed	\$ 11,602,531	\$ 10,835,836
Other U.S. denominated:		
AAA	1,991,776	303,171
AA	2,515,965	1,217,858
A	11,662,185	6,243,356
BBB	2,341,498	1,704,973
Unrated	30,084,331	20,892,754
Commingled funds:		
U.S. bond funds - unrated	57,529,479	83,077,595
Non-U.S. bond funds - unrated	53,291,125	49,402,104
Money market funds - unrated	5,615,914	25,301,538
	<u>\$176,634,804</u>	<u>\$198,979,185</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.

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NOTES TO FINANCIAL STATEMENTS
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NOTE C - INVESTMENTS (UNAUDITED) - Continued

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.

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 noninvestment-grade securities. As of September 30, 2008 and 2007, there was no investment in a single issuer that represents five 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 (in years) for fixed or variable income securities for the Endowment Fund at September 30, 2008 and 2007, are as follows:

	2008	2007
U.S. Government obligations	3.4	4.7
Corporate bonds	4.9	5.4
Commingled bond funds	4.2	4.6

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

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008**

NOTE C - INVESTMENTS (UNAUDITED) - Continued

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 market value of the mortgage-backed securities in the Endowment Fund was \$27,790,776 and \$18,017,647, respectively, and the market value of collateralized mortgage obligations was \$3,755,744 and \$3,472,960, 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, 2008 and 2007, the effective durations (in years) for these securities held in the Endowment Fund are as follows:

	2008	2007
Mortgage-backed securities	3.5	3.5
Collateralized mortgage obligations	3.4	3.8

Foreign Currency Risk

The strategic asset allocation policy for the Endowment Fund includes an allocation to non-United States equities. Under Board policy, foreign equity holdings in a single industry should not exceed 25 percent of the investment manager's portfolio measured at market value, with 50 percent 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 eight percent 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 10 percent of the investment manager's portfolio, and bonds denominated in currencies other than U.S. dollars are limited to 20 percent of the investment manager's portfolio. As of September 30, 2008 and 2007, all foreign investments are in international commingled funds, which in turn invest in equities and bonds of foreign issuers.

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE D - CAPITAL ASSETS

WBHM's capital asset activity for the years ended September 30, 2008 and 2007, is summarized as follows:

September 30, 2008

	Beginning	Additions	Retirements	Ending
Land	\$ 25,669	\$ -	\$ -	\$ 25,669
Building and building improvements	155,290	-	-	155,290
Equipment	518,675	-	(38,318)	480,357
	699,634	-	(38,318)	661,316
Less accumulated depreciation	(567,797)	(26,557)	38,318	(556,036)
Capital assets, net	<u>\$ 131,837</u>	<u>\$ (26,557)</u>	<u>\$ -</u>	<u>\$ 105,280</u>

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	<u>\$ 158,394</u>	<u>\$ (26,557)</u>	<u>\$ -</u>	<u>\$ 131,837</u>

NOTE E - 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 \$37,406 and \$11,383 as of September 30, 2008 and 2007, respectively, for accrued vacation pay and salary-related payments associated with vacation pay. There is no such accrual recognized for sick leave benefits because there is no terminal cash benefit available to employees for accumulated sick leave.

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE F - 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 contribution plans.

Participants in TRS who retire at age 60 with 10 years of credited service, or after completing 25 years of credited service, regardless of age, are entitled to an annual benefit, payable monthly for life. Service retirement benefits are calculated by three methods, with the participants receiving payments under the method which yields the highest monthly benefit. These methods include (1) minimum guaranteed, (2) money purchase, or (3) formula. Under the formula method, participants are allowed 2.0125 percent 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 2008 was \$97,070, which consisted of \$63,695 from WBHM and \$33,375 from employees. The contribution requirement for WBHM for fiscal year 2007 was \$99,237, which consisted of \$64,684 from WBHM and \$34,553 from employees. WBHM's contribution was 9.50 percent and 9.36 percent of salaries and wages for covered employees in 2008 and 2007, respectively, which represents 100 percent of the required contribution. The contribution by employees is five percent 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' 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, 2007, annual financial report of the TRS. That report is publicly available and may be obtained by contacting TRS.

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NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2008

NOTE F - EMPLOYEE RETIREMENT BENEFITS - Continued

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 five percent 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 2008 and 2007, excluding employee amounts not eligible for matching, were \$11,864 (\$5,932 from both WBHM and its employees) and \$10,606 (\$5,303 from both WBHM and its employees), respectively.

WBHM's total salaries and wages for fiscal years 2008 and 2007 were \$685,364 and \$706,613, respectively. Total salaries and wages during fiscal years 2008 and 2007 for covered employees participating in TRS were \$669,915 and \$691,066, respectively. Total salaries and wages during fiscal years 2008 and 2007 for covered employees participating in TIAA-CREF were \$264,133 and \$236,380, respectively.

Postretirement Benefits

Certain retired employees may elect to continue to participate in UAB's group health plan until they are eligible for Medicare by paying the full cost of the plan premium. Retired employees age 65 or older who are eligible for Medicare must enroll in the Medicare Coordinated Plan under which Medicare is the primary insurer, and UAB's health care plan becomes the secondary insurer. Despite the availability of the UAB plan, most retirees elect to participate in the Public Education Employees Health Insurance Plan (PEEHIP) with TRS, in which case the retirees pay a portion of the PEEHIP premium, with UAB paying an allocation towards 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 not eligible for tuition assistance benefits themselves. However, their unmarried dependent children may qualify in some cases.

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NOTES TO FINANCIAL STATEMENTS
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NOTE G - 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 \$112,523 and \$147,868 for the years ended September 30, 2008 and 2007, 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.