

Report on the

# University of North Alabama

Florence, Alabama

October 1, 2007 through September 30, 2008

Filed: September 25, 2009



## Department of Examiners of Public Accounts

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*Ronald L. Jones, Chief Examiner*





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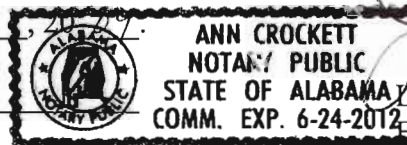
Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the University of North Alabama for the period October 1, 2007 through September 30, 2008.

Respectfully submitted,

Sworn to and subscribed before me this  
the 28<sup>th</sup> day of August, 2009.

Ann Crockett  
Notary Public



Debra Fuqua-Haney  
Debra Fuqua-Haney  
Examiner of Public Accounts

Sworn to and subscribed before me this  
the 31<sup>st</sup> day of August, 2009.

Jeresa K. Harrison  
Notary Public

Johnny D. Goodwin  
Johnny D. Goodwin  
Examiner of Public Accounts

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**University of North Alabama  
October 1, 2007 through September 30, 2008**

**University of North Alabama Foundation and Subsidiary  
October 1, 2007 through September 30, 2008**

The University of North Alabama (the "University") is a comprehensive, regional, state university, offering undergraduate and graduate degrees, and serving both residential and commuting students. The University offers studies in the following colleges: the College of Arts and Sciences; the College of Business; the College of Education; and the College of Nursing and Allied Health. Additional information on the history of the University is included in the Comments section of this report.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the University complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. This report also presents the results of an audit of the University's component unit, the Foundation, which was audited by other auditors. The University audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5-14. The Foundation audit was conducted in accordance with auditing standards generally accepted in the United States of America.

An unqualified opinion was issued on the basic financial statements of the University and its component unit, which means the financial statements present fairly, in all material respects, the financial positions and the results of operations for the fiscal years ending September 30, 2008.

Findings are numbered and reported by the fiscal year in which the finding originally occurred.

The following problems were found with the University's internal control over financial reporting and/or its internal controls over compliance for its federal assistance programs (Exhibit 10).

- ◆ 2008-01 The University did not properly reconcile bank statements.
- ◆ 2008-02 The University failed to maintain and/or safeguard its students Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the 2007-2008 award year as required by regulations.

The following officials/employees were invited to an exit conference to discuss the results of this audit: Dr. William G. Cale, Jr., President; Dr. W. Steven Smith, Vice-President for Business and Financial Affairs; Ms. Donna Ford Tipps, Controller; Ms. Julie Graham, Director of Financial Affairs; and Ben Baker, Director of Student Financial Services. The following individuals attended the exit conference: Dr. William G. Cale, Jr., President; Dr. W. Steven Smith, Vice-President for Business and Financial Affairs; Ms. Donna Ford Tipps, Controller; Ms. Julie Graham, Director of Financial Affairs; Ben Baker, Director of Student Financial Services; Ms. Catherine White, Director of Human Resources; Dr. Sue J. Wilson, Dean of Enrollment Services and Registrar; Ms. Anita Holcombe, Accountant II; Ms. Melissa Williams, Accountant II; and Ms. Salena Denton, Accountant I. Representing the Department of Examiners of Public Accounts were: Ms. Lesley Locklear, Audit Manager and Ms. Lola Fuqua-Haney and Johnny Goodwin, Examiners.



Department of  
**Examiners of Public Accounts**

**COMMENTS**

**University of North Alabama  
October 1, 2007 through September 30, 2008**

The University of North Alabama first opened its doors as LaGrange College on January 11, 1830, in northeast Franklin County, Alabama. LaGrange College arose from the idea offered at a November 28, 1826, meeting of the Tennessee Conference of the Methodist Episcopal Church to establish a college that would not be “religious or theological.”

A year later, LaGrange opened to students of all denominations in two three-story brick buildings. Eight days after the opening, the Alabama legislature issued a charter for the institution, making it the first state-chartered institution to begin operation in Alabama.

The Rev. Robert Paine was LaGrange’s first president. The North Carolina native was also a professor of moral science and belles letters and taught geography and mineralogy. He was assisted by two other professors. The first board of trustees had 50 members, including a Native American, a Choctaw politician and a Cherokee leader. J. D. Malone, of Limestone County, was the first graduate in 1833.

LaGrange added a grammar school in 1850. Now the University of North Alabama, the institution today offers the only university-owned and operated elementary laboratory school – Kilby Laboratory School – in Alabama.

Among LaGrange’s alumni were several generals as well as Alabama governors John Anthony Winston, Edward A. O’Neal and David P. Lewis, Alabama Supreme Court justice William M. Byrd and U. S. Senator Jeremiah Clemens.

LaGrange graduate Dr. R. H. Rivers, after becoming president of the college, led most of the students and all but one faculty member from LaGrange Mountain in late 1854 to relocate to Florence. The school was reincorporated as Florence Wesleyan University. One hundred sixty students enrolled in 1855, Florence Wesleyan’s first year of operation. The school quickly attracted students from five states and two foreign countries. Among Florence Wesleyan’s graduates were Alabama Governor Emmitt O’Neal and Texas Governor Sullivan “Sul” Ross.

When the Methodist Church deeded Florence Wesleyan to the state of Alabama in 1872, the institution became Florence State Normal School, the first state-supported teachers college south of the Ohio River. Shortly thereafter, in 1873, it became one of the first coeducational institutions in the nation.

Since its foundation in 1830, the institution has had nine name changes, becoming the University of North Alabama in 1974. It has also developed into a comprehensive regional university offering quality educational opportunities in four academic colleges: Arts and Sciences, Business, Education, and Nursing and Allied Health. The University introduced graduate programs in 1957 and today offers graduate degrees through each of its four colleges. The University currently enrolls more than 7,100 students.

Until 1967, the University was controlled by the State Board of Education. Act Number 773, Acts of Alabama 1967, page 1631 appointed a Board of Trustees to govern the institution. The governing control of the University is vested in a Board of Trustees established by action of the State Legislature. The Board is composed of the Governor as president ex officio, the State Superintendent as a member ex officio, and nine members. The chief administrative officer of the University is the President. The University of North Alabama Foundation and Subsidiary (the "Foundation") was organized as a non-profit corporation without capital stock under the laws of the State of Alabama. The organization was formed to provide support for the University.

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*Independent Auditor's Report*

## *Independent Auditor's Report*

We have audited the accompanying basic financial statements of the University of North Alabama, a component unit of the State of Alabama, as of and for the year ended September 30, 2008, as listed in the table of contents as Exhibits 1 through 3. These basic financial statements are the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the University of North Alabama Foundation and Subsidiary, a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of North Alabama Foundation and Subsidiary is based on the report of other auditors.

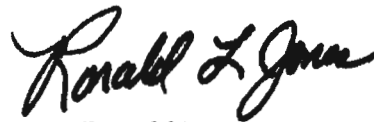
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Alabama and the University of North Alabama Foundation and Subsidiary, as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 20, 2009 on our consideration of the University of North Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 basic financial statements of the University of North Alabama, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 6) is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Ronald L. Jones

Chief Examiner

Department of Examiners of Public Accounts

August 20, 2009

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*Management's Discussion and Analysis*  
*(Required Supplementary Information)*

## **Management's Discussion and Analysis**

The purpose of this annual report is to provide readers with financial information about the activities and financial condition of the University of North Alabama (University) and its component unit, the University of North Alabama Foundation (Foundation). The report consists of three basic financial statements that provide information on the University and two statements providing information on the Foundation.

The University statements presented are the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. These statements should be read in conjunction with the Notes to the Financial Statements. The Foundation's statements presented are the Statement of Financial Position and Statement of Activities.

The following summary and management discussion of financial information is intended to provide the readers with an overview of the financial statements. The comparative figures for FY 2007 appearing throughout this report are audited figures.

### **Statement of Net Assets**

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting. Net assets, the difference between assets and liabilities, is one way to measure the financial health of the University. Net assets increased 7.5% in the current fiscal year to \$88.6 million.

### Condensed Statement of Net Assets

	<u>2008</u>	<u>2007</u>
<b><u>Current Assets</u></b>		
Cash and Short-term Investments	\$51,237,764	\$46,001,283
Receivables	5,678,971	5,315,678
Inventory, Prepaid Expenses, and Other	389,946	1,033,389
<b>Total Current Assets</b>	<b>57,306,681</b>	<b>52,350,350</b>
<b><u>Non-Current Assets</u></b>		
Cash and Long-term Investments	6,056,714	7,785,820
Long-term Receivables	1,663,221	1,528,368
Other Non-Current Assets	821,308	880,792
Capital Assets, Net	63,285,322	59,911,114
<b>Total Non-Current Assets</b>	<b>71,826,565</b>	<b>70,106,094</b>
<b>Total Assets</b>	<b>129,133,246</b>	<b>122,456,444</b>
<b><u>Current Liabilities</u></b>		
Accounts Payable and Accrued Liabilities	3,863,648	2,438,171
Deferred Revenue	10,997,065	11,130,891
Deposits Held in Custody for Others	667,789	683,910
Long-Term Liabilities – Current Portion	1,608,892	841,964
<b>Total Current Liabilities</b>	<b>17,137,394</b>	<b>15,094,936</b>
<b><u>Non-Current Liabilities</u></b>		
Long-Term Liabilities	23,429,146	24,969,662
<b>Total Liabilities</b>	<b>40,566,540</b>	<b>40,064,598</b>
<b><u>Net Assets</u></b>		
Invested in Capital Assets, Net Restricted	40,822,633	36,723,422
Unrestricted	11,909,296	12,152,848
Unrestricted	35,834,777	33,515,576
<b>Total Net Assets</b>	<b>88,566,706</b>	<b>82,391,846</b>
<b>Total Liabilities and Net Assets</b>	<b>\$129,133,246</b>	<b>\$122,456,444</b>

**Cash and short-term investments** increased by \$5.2 million. This was due to an increase in cash and cash equivalents of \$5.1 million, and an increase in short-term investments of approximately \$122,000. The increase in cash and cash equivalents reflects an increase in student enrollment, including on-line MBA, international student programs, and residual budget funds from 2007. Short-term investments are defined as those with maturities of less than one year.

**Receivables** include grants, state appropriations, student notes, and various operating receivables. State appropriations receivable consists of the general appropriation from the State of Alabama. Overall current receivables increased approximately \$363,000 due to an increase in student receivables and receivables from other agencies.

**Restricted cash and long-term investments**, which include both unrestricted and endowment investments, decreased by approximately \$1.7 million due to market losses. The University monitors the investment portfolio to insure proper adherence to investment guidelines.

**Capital assets (net)** increased by \$3.3 million due primarily to the renovation of various buildings on campus and costs incurred for a University-wide administrative software upgrade (Banner). These additions, net of depreciation and disposals, are summarized in the footnotes to the financial statements.

**Accounts payable and accrued liabilities** increased \$1.4 million due to an increase in payables for salaries and supplies.

**Deferred revenue** decreased approximately \$133,000 due to additional booked revenue resulting from a longer fall semester through 9/30/08.

**Long-term liabilities** decreased by approximately \$774,000 due to scheduled payment of bond principal and the conversion of a note payable from long term to short term.

**Net assets** increased 7.5% overall, reflecting growth that occurred during the year. The University's capital assets grew due to the continuation of the administrative software upgrade and the renovation of various buildings on campus. Restricted net assets decreased as a result of market losses on endowments. Unrestricted net assets reflect an increase in reserves for capital projects and future debt service.

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

The Statement of Revenues, Expenses and Changes in Net Assets present the operating results of the University, as well as the non-operating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles.

**Condensed Statement of Revenues, Expenses and Change in Net Assets**  
**For the Year Ended September 30,**

	<b><u>2008</u></b>	<b><u>2007</u></b>
<b><u>Operating Revenue</u></b>		
Student Tuition and Fees	\$30,967,040	\$29,312,214
Auxiliary Sales and Services	7,046,836	5,907,102
Grant and Contracts	7,739,671	11,273,607
Athletic Revenue	610,250	589,641
Other Operating Revenue	965,170	1,108,517
<b>Total Operating Revenue</b>	<b>47,328,967</b>	<b>48,191,081</b>
Operating Expenses	82,535,357	71,215,757
Net Operating Income/(Loss)	(35,206,390)	(23,024,706)
<b><u>Non-Operating Revenue/(Expenses)</u></b>		
State Appropriations	35,125,031	30,133,495
Federal Grants And Contracts	4,940,655	0
Capital Grants, Contracts, and Gifts	1,719,892	743,284
Non-Capital gifts and grants	0	1,046,085
Investment Income	1,810,774	2,920,476
Other Non-Operating Expenses	(2,330,121)	(1,193,382)
<b>Total Non-Operating Revenues – Net</b>	<b>41,266,231</b>	<b>33,649,959</b>
Increase in Net Assets	6,059,841	10,625,253
Net Assets – Beginning of Year Restated	<b>82,506,865</b>	<b>71,766,593</b>
Net Assets – End of Year	<b>\$88,566,706</b>	<b>\$82,391,846</b>

The main categories of revenue for the University are: tuition and fees, state appropriations, auxiliary activities and grants and contracts.

**Tuition and fees (net)** increased by 5.6% in FY 2008. The increase was due to an average tuition rate increase of approximately 3% and an enrollment increase of 5.4% (based on data for fall semesters).

**Auxiliary revenue** consists of income from various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public. These entities are intended to be self-supporting, and charge a fee for their goods or services. Revenue from residence halls, apartments, food services, university health services, rental property, and other student related activities are included in this total. The 19.3% increase in FY 2008 reflects an increase in housing, general auxiliary revenue, and international student fees.

**Grants and contracts revenue** decreased by 31.4% as a result of federal grants being moved to non-operating.

**Operating expenses** increased by \$11.3 million, or 15.9%. Each category is discussed in detail on page six.

**State appropriations** increased 16.6% over the previous year.

**Endowment gifts** reflect revenue to the University endowments. The majority of endowments established for the past decade are held in the UNA Foundation, but small gifts are received in the University from year to year.

**Capital grants, contracts and gifts** for FY 2008 increased due to revenue received for the renovation of Rogers Hall, the construction of the synthetic athletic field and baseball stadium, and AMSTI lab renovations.

**Investment income** decreased during the fiscal year as a result of a decline in interest rates and unrealized losses in equity funds.

### **Operating Expenses by Functional Classification**

Functional classifications are the traditional categories that universities have used to report annual expenditures. They represent the type of programs and services that the University provides.

Instructional expenditures grew by \$3.9 million from FY 2007 to FY 2008 primarily due to increased costs for employee salaries and benefits including faculty development and additional faculty positions.

Increases in expenses for recruitment and retention of minority faculty and staff funded by Knight v. Alabama appropriations, campus technology upgrades, and supplies and other expenses also contributed to the growth.

Research and public service expenditures increased 29.4% due primarily to the increase in funding from the Alabama Math, Science and Technology Initiative (AMSTI), and increased Intensive English Program activity.

Academic support expenditures remained at about the same level as FY 2007.

Student services expenditures increased due to growth in employee salaries, benefits, supplies, and other expenses as well as the addition of staff positions.

The increase in institutional support expenditures from the previous year is due to additional salary expenses for level increases, increased benefit costs, and the addition of staff positions. There were also several onetime expenses including the staff compensation study.

Operation and maintenance of plant expenditures remained at about the same level as FY 2007.

Depreciation expense increased due to the addition of new capital assets, and the initial depreciation of the Banner software system.

Scholarship expenses increased due to additional scholarship awards.

Auxiliary expenditures increased due to the reclassification of budget units from the education and general fund to the auxiliary fund.

### **Operating Expenses by Natural Classification**

Operating expenses, when summarized by natural classification, categorizes expenditures across functional programs.

Salary expenses increased due to additional faculty and staff positions created as a result of enrollment growth. Additionally, faculty and staff salaries increased due to planned level increases, promotions, and cost of living adjustments.

Benefits expense grew due to increased overall costs for employees and retirees.

Supplies and other expenses increased due to a rise in fixed costs and additional University funding for supplies and travel.

Plant and equipment expenses increased due to additional utility costs and University funding for renovation and repair of facilities.

Financial aid expense increased due to additional University funded scholarships and increased federal grants awarded.

Depreciation expense increased due to the addition of capital assets.

## Statement of Cash Flows

The Statement of Cash Flows provides information about cash inflows and outflows during the period. It classifies cash flows as those related to operating, non-capital financing, capital financing, and investing activities. This statement assists users to assess the University's ability to generate future net cash flows, to meet obligations as they come due, and to assess its need for external financing.

	<u>2008</u>	<u>2007</u>
<b><u>Cash Provided (Used) by:</u></b>		
Operating Activities	\$(29,085,698)	\$(17,601,170)
Non-Capital Financing Activities	39,892,508	31,354,269
Capital and Related Financing Activities	(7,911,722)	(7,866,444)
Investing Activities	2,209,988	592,141
<b>Net Increase (Decrease) in Cash</b>	5,105,076	6,478,796
<b>Cash, Beginning of Year</b>	42,445,353	35,966,557
<b>Cash, End of Year</b>	\$47,550,429	\$42,445,353

Cash receipts from operating activities consist primarily of tuition, grants, contracts, food service, and housing revenues. Cash outlays include payment of wages, benefits, supplies, utilities, and scholarships.

State appropriation is the primary source of non-capital financing. Accounting standards require this source of revenue to be reported as non-operating although the University's budget depends on this funding to continue the current level of operations.

Cash flows from capital and related financing activities consist of capital grants and gifts less expenditures for capital asset construction and purchases.

Net cash inflow for investing activities reflects increased investment income and proceeds from sales of investments.

### Significant Capital Asset and Debt Activity

Construction projects conducted and completed during the year included renovations to Collier Library, Rogers Hall, and the East Campus. Additionally, the final phase of the electrical transformer replacement project was completed and implementation of the administrative software project continued. No new debt was acquired during this reporting period.

## **Economic and Enrollment Factors That Will Affect the Future**

The level of State support, compensation increases, student tuition and fee increases, and energy costs directly affects the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. The University recorded another record increase in enrollment for Fall 2007 and continues its ongoing effort to attract and retain students.

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# *Basic Financial Statements*

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***Statement of Net Assets***  
***September 30, 2008***

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**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 47,193,695.12
Short-Term Investments	4,044,069.17
Accounts Receivable	5,338,663.78
Inventories	26,742.13
Notes Receivable	310,820.57
Stadium Use Agreement	29,486.68
Bond Discount	18,826.18
Bond Issuance Cost	11,170.70
Prepaid Assets	333,207.23
Total Current Assets	57,306,681.56

**Noncurrent Assets**

Deposit with Trustees	1,354,582.97
Restricted Cash	356,733.96
Investments	4,345,396.94
Bond Discount	264,916.85
Bond Issuance Cost	172,397.64
Notes Receivable	1,663,220.73
Stadium Use Agreement	383,993.71
Capital Assets:	
Land	3,732,428.89
Construction in Progress	940,132.07
Improvements Other Than Buildings	12,069,339.95
Buildings	76,005,530.16
Equipment and Furniture and Software	16,702,697.18
Library Holdings	19,676,672.64
Less: Accumulated Depreciation	(65,841,478.76)
Total Capital Assets, Net of Depreciation	63,285,322.13
Total Noncurrent Assets	71,826,564.93
Total Assets	\$ 129,133,246.49

The accompanying Notes to the Financial Statements are an integral part of this statement.

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**LIABILITIES****Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 3,863,648.16
Deferred Revenue	10,997,064.49
Refundable Deposits	77,312.33
Deposits Held for Others	590,476.38
Stadium Use Payable	29,486.68
Bonds Payable	845,000.00
Note Payable	642,008.20
Compensated Absences	92,397.59
Total Current Liabilities	<u>17,137,393.83</u>

**Noncurrent Liabilities**

Stadium Use Payable	383,993.71
Bonds Payable	22,085,000.00
Compensated Absences	960,152.73
Total Noncurrent Liabilities	<u>23,429,146.44</u>

Total Liabilities 40,566,540.27

**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	40,822,633.50
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,162,445.06
Expendable:	
Scholarships and Fellowships	1,945,383.71
Instructional Department Uses	3,602,748.31
Loans	2,233,555.35
Research	610,580.44
Debt Service	1,354,582.97
Unrestricted	<u>35,834,776.88</u>
Total Net Assets	<u>\$ 88,566,706.22</u>

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***Statement of Revenues, Expenses and Changes in Net Assets  
For the Year Ended September 30, 2008***

**OPERATING REVENUES**

Student Tuition and Fees (Net of Scholarship Allowances of \$5,474,879.36)	\$ 30,967,039.89
Federal Grants and Contracts	1,477,884.36
State and Local Grants and Contracts	4,492,794.99
Nongovernmental Grants and Contracts	1,768,992.14
Auxiliary Enterprises:	
Sales and Services of Auxiliary (Net of Scholarship Allowances of \$113,196.93)	7,046,835.50
Athletic Income	610,250.18
Other Operating Revenues	965,170.01
Total Operating Revenues	<u>47,328,967.07</u>

**OPERATING EXPENSES**

Instruction	30,810,210.26
Institutional Support	10,035,058.91
Public Service	6,427,639.32
Academic Support	4,431,617.34
Student Services	992,579.19
Research	90,572.54
Operation and Maintenance	7,288,598.75
Scholarships and Financial Aid	5,017,309.59
Depreciation	4,513,057.39
Auxiliary Enterprises	12,928,714.21
Total Operating Expenses	<u>82,535,357.50</u>
Operating Income (Loss)	<u>(35,206,390.43)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	35,125,030.90
Federal Grants and Contracts	4,940,655.27
Unrealized gains/losses	(1,166,807.02)
Investment Income	1,810,774.25
Interest on Capital Asset Related Debt	(1,163,314.33)
Net Nonoperating Revenues	<u>39,546,339.07</u>
Income Before Other Revenues, Expenses, Gains, or Losses	4,339,948.64
Grants and Gifts	1,717,162.38
Additions to Permanent Endowments	2,730.01
Changes in Net Assets	<u>6,059,841.03</u>
Total Net Assets - Beginning of Year, as Restated (See Note 14)	82,506,865.19
Total Net Assets - End of Year	<u>\$ 88,566,706.22</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

***Statement of Cash Flows***  
***For the Year Ended September 30, 2008***

**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and Fees	\$ 30,224,878.47
Grants and Contracts	8,237,785.00
Payments to Suppliers	(19,294,775.88)
Payments to Utilities	(2,667,452.62)
Payments to Employees	(38,918,388.79)
Payments for Benefits	(10,379,469.38)
Payments for Scholarships	(4,683,730.88)
Auxiliary Enterprises	7,601,997.04
Other	793,458.57
Net Cash Provided (Used) by Operating Activities	<u>(29,085,698.47)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	35,125,030.90
Deposit Liabilities	(16,121.12)
Federal Grants and Contracts	4,940,655.27
Federal Loan Receipts	18,715,416.26
Federal Loan Lending Disbursements	(18,875,203.07)
Other Receipts (Payments)	2,730.01
Net Cash Provided (Used) by Noncapital Financing Activities	<u>39,892,508.25</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets and Construction	(7,772,246.25)
Sale of Capital Assets	1,717,162.38
Deposits with Trustees	31,679.39
Principal Paid on Capital Debt	(755,000.00)
Interest Paid on Capital Debt	(1,133,317.45)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,911,721.93)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	9,955,487.31
Purchase of Investments	(8,389,466.11)
Interest on Investments	643,967.23
Net Cash Provided (Used) by Investing Activities	<u>2,209,988.43</u>

Net Increase (Decrease) in Cash and Cash Equivalents	5,105,076.28
Cash and Cash Equivalents - Beginning of Year	42,445,352.80
Cash and Cash Equivalents - End of Year	<u>\$ 47,550,429.08</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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**Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:**

Operating Income (Loss) \$ (35,206,390.43)

**Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:**

Depreciation Expense 4,513,057.39  
Changes in Assets and Liabilities:  
(Increase)/Decrease in Receivables, Net (337,021.94)  
(Increase)/Decrease in Prepaids 634,350.15  
(Increase)/Decrease in Inventories 9,092.62  
Increase/(Decrease) in Compensated Absences 9,562.33  
Increase/(Decrease) in Payables 1,425,477.46  
Increase/(Decrease) in Deferred Revenue (133,826.05)

Net Cash Provided (Used) by Operating Activities \$ (29,085,698.47)

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***Statement of Financial Position***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

	2008	Restated 2007
<b><u>ASSETS</u></b>		
<b><u>Current Assets:</u></b>		
Cash and Cash Equivalents	\$ 1,207,567	\$ 3,965,049
Accounts Receivable	66,400	23,108
Pledges Receivable	41,216	25,000
Inventories	5,169	2,734
Interest Receivable	26,937	7,385
Total Current Assets	<u>1,347,289</u>	<u>4,023,276</u>
Total Investments	14,521,328	13,681,565
<b><u>Fixed Assets:</u></b>		
Donated Artifacts and Collectibles	273,950	263,650
Furniture and Equipment	34,064	34,064
Sub-Total	<u>308,014</u>	<u>297,714</u>
Less: Accumulated Depreciation	34,064	33,801
Total Fixed Assets	<u>273,950</u>	<u>263,913</u>
<b><u>Other Assets</u></b>		
Pledges Receivable	45,208	74,691
Total Other Assets	<u>45,208</u>	<u>74,691</u>
<b>TOTAL ASSETS</b>	<b><u>16,187,775</u></b>	<b><u>18,043,445</u></b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b><u>Current Liabilities:</u></b>		
Accounts Payable	26,416	3,151
Obligations under Annuity Contracts - Current Portion	65,854	65,197
Total Current Liabilities	<u>92,270</u>	<u>68,348</u>
Obligations under Annuity Contracts - Deferred Portion	217,846	197,792
Total Liabilities	<u>310,116</u>	<u>266,140</u>
<b><u>Net Assets:</u></b>		
Unrestricted	320,890	292,934
Temporarily Restricted	3,240,763	5,993,666
Permanently Restricted	12,316,006	11,490,705
Total Net Assets	<u>15,877,659</u>	<u>17,777,305</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 16,187,775</u></b>	<b><u>\$ 18,043,445</u></b>

The accompanying Notes to the Financial Statements are an integral part of this statement.

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**Statement of Activities****University of North Alabama Foundation****For the Fiscal Years Ended September 30, 2008 and 2007**

	2008			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b><u>SUPPORT AND REVENUE</u></b>				
<b><u>Support:</u></b>				
Donations	\$ 113,512	\$ 510,017	\$ 863,943	\$ 1,487,472
In-Kind Donations	12,084	23,270		35,354
Other Income		58,927		58,927
Transfers	205,232	(191,590)	(13,642)	-
Net Assets Released from Restriction	1,299,023	(1,274,023)	(25,000)	-
Total Support	1,629,851	(873,399)	825,301	1,581,753
<b><u>Revenue:</u></b>				
Interest Income	15,883	400,980		416,863
Net Unrealized and Realized Gain on Investments		(2,280,484)		(2,280,484)
Total Revenue	15,883	(1,879,504)	-	(1,863,621)
TOTAL SUPPORT AND REVENUE	1,645,734	(2,752,903)	825,301	(281,868)
<b><u>EXPENSES</u></b>				
Program Services	1,139,519			1,139,519
Support Services	453,259			453,259
Loss on Pledges	25,000			25,000
TOTAL EXPENSES	1,617,778	-	-	1,617,778
Net Change in Assets	27,956	(2,752,903)	825,301	(1,899,646)
Net Assets at Beginning of Year Restated	292,934	5,993,666	11,490,705	17,777,305
NET ASSETS AT END OF YEAR	\$ 320,890	\$ 3,240,763	\$ 12,316,006	\$ 15,877,659

The accompanying Notes to the Financial Statements are an integral part of this statement.

2007 Restated			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 84,805	\$ 710,331	\$ 229,275	\$ 1,024,411
50,000		-	50,000
	64,858	-	64,858
(50,485)	(398)	50,883	-
550,876	(535,876)	(15,000)	-
635,196	238,915	265,158	1,139,269
19,491	442,119	-	461,610
-	1,469,882	-	1,469,882
19,491	1,912,001	-	1,931,492
654,687	2,150,916	265,158	3,070,761
436,426	-	-	436,426
265,646			265,646
15,000	-		15,000
717,072	-	-	717,072
(62,385)	2,150,916	265,158	2,353,689
355,319	3,842,750	11,225,547	15,423,616
\$ 292,934	\$ 5,993,666	\$ 11,490,705	\$ 17,777,305

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### **Note 1 – Summary of Significant Accounting Policies**

The financial statements of the University of North Alabama are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the University of North Alabama are described below.

#### **A. Reporting Entity**

The University of North Alabama is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, “The Financial Reporting Entity,” states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama and the Governor appoints the University of North Alabama’s Board of Trustees. In addition, the University receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the University of North Alabama is considered for financial reporting purposes to be a component unit of the State of Alabama.

#### **B. Component Units**

The University of North Alabama Foundation and Subsidiary (the “Foundation”) is organized exclusively for charitable, scientific and educational purposes for the benefit of the University. Because of the significance of the relationship between the University and the Foundation, the Foundation is considered a component unit of the University. The Foundation’s financial statements and accompanying notes are reported separately because of the difference in the reporting model for the Foundation. The Foundation follows the Financial Accounting Standards Board (FASB) rather than the Governmental Accounting Standards Board (GASB). As a result, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial statements for these differences.

#### **C. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The financial statements of the University of North Alabama have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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The University of North Alabama follows all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

It is the policy of the University to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted net assets are available.

The Statement of Revenues, Expenses and Changes in Net Assets distinguishes between operating and nonoperating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the University of North Alabama. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the University of North Alabama's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

#### **D. Assets, Liabilities, and Net Assets**

##### **1. Deposits and Investments**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Statutes authorize the University to invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof or of the United States of America that meet specified criteria.

Restricted cash and cash equivalents consist of funds in University bank accounts restricted for endowment purposes.

Investments are reported at fair value based on quoted market prices, except for money market investments and repurchase agreements, which are reported at amortized cost.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### 2. Receivables

Accounts receivable relate to amounts due from federal grants, state appropriations, third party tuition, and auxiliary enterprise sales, such as food service, bookstore and residence halls. Notes receivable relate to amounts due from students for tuition and fee billings. No allowance for doubtful accounts has been established.

#### 3. Inventories

The inventories are comprised of consumable supplies and are valued at cost. Inventories are valued using the first in/first out (FIFO) method.

#### 4. Capital Assets

Capital assets with a unit cost of over \$5,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost or estimated historical cost if purchased or constructed. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land and Construction in Progress are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings and Improvements	Straight-Line	50 years
Improvements Other Than Buildings	Composite	25 years
Equipment	Composite	5 – 10 years
Library Materials	Composite	10 years

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2008***

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**5. Long-Term Obligations**

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond/Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

**6. Compensated Absences**

The Board of Trustees determines annual and sick leave policies for the University's employees. The annual and sick leave policies adopted by the University are as follows:

No liability is recorded for sick leave. Staff and department-head employees earn and accumulate annual leave at the following rates:

Years of Employment	Number of Days Each Year	Maximum Days Accumulation
Up to 2 years	10 days	25 days
After 2 years	12 days	25 days
After 3 years	13 days	25 days
After 4 years	14 days	25 days
After 5 years	15 days	25 days
After 6 years	16 days	25 days
After 7 years	17 days	25 days
After 8 years	18 days	25 days
After 9 years	19 days	25 days
After 10 years	20 days	25 days

Faculty and staff of the University earn 12 days sick leave per year. Payment is not made to employees for unused sick leave at termination or retirement.

**7. Deferred Tuition and Fee Revenue**

Tuition and fee revenues received but related to the period after September 30, 2008, have been deferred.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### **8. Net Assets**

Net assets are required to be classified for accounting and reporting purposes into the following 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. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
  
- ◆ **Restricted:**
  - ✓ **Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University of North Alabama. Such assets include the University of North Alabama’s permanent endowment funds.
  
  - ✓ **Expendable** – Net assets whose use by the University of North Alabama is subject to externally imposed stipulations that can be fulfilled by actions of the University of North Alabama pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.
  
- ◆ **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 the Board of Trustees.

#### **9. Federal Financial Assistance Programs**

The University participates in various federal programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Office of Management and Budget (OMB) Compliance Supplement.

#### **10. Scholarship Allowances and Student Aid**

Student tuition and fees are reported net of scholarship allowances and discounts. The amount for scholarship allowances and discounts is the difference between the stated charge for goods and services provided by the University and the amount that is paid by the student and/or third parties making payments on behalf of the student. The University uses the alternate method as prescribed by the National Association of College and University Business Officers (NACUBO) in their Advisory Report 2000-05 to determine the amount of scholarship allowances and discounts.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### Note 2 – Deposits and Investments

##### A. Deposits

The University's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Depository Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Statement of Net Assets classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

##### B. Investments

The University may invest its funds in securities and investments authorized by the *Code of Alabama 1975*, Section 16-13-2, Sections 27-1-8 and 27-1-9, and Sections 27-41-1 through 27-41-41. These laws provide that the University may invest in the same type of instruments as allowed by Alabama law for domestic life insurance companies. This includes a wide range of investments, such as direct obligations of the United States of America, obligations issued or guaranteed by certain federal agencies, and bonds of any state, county, city, town, village, municipality, district or other political subdivision of any state or any instrumentality or board thereof of the United States of America that meet specified criteria.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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As of September 30, 2008, the University had the following investments and maturities:

Investment Type	Fair Value	Years to Maturity			
		Less Than 1	1 – 5	6 – 10	More Than 10
<b>Debt Securities:</b>					
U. S. Agency Securities	\$ 285,931.62	\$	\$37,214.80	\$123,789.00	\$124,927.82
Repurchase Agreements	4,044,069.17	4,044,069.17			
<b>Total Debt Securities</b>	<b>4,330,000.79</b>	<b>\$4,044,069.17</b>	<b>\$37,214.80</b>	<b>\$123,789.00</b>	<b>\$124,927.82</b>
Domestic Stocks	35,915.40				
Mutual Funds	3,915,735.90				
Certificates of Deposit	95,856.94				
Money Market Accounts	11,957.08				
<b>Total Investments</b>	<b>\$4,059,465.32</b>				

Investments are subject to certain types of risks including credit risk, interest rate risk, and foreign currency risk. A description of each of these types of risk, and the University's policies to minimize these risks, are described below:

- ◆ **Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This type of risk falls into the three categories described below:
  - ✓ **Credit Quality** – Nationally recognized statistical rating organizations provide ratings of debt securities quality, which provide investors with information about the issuer's ability to meet its obligations. The University's investment policy require that at least 85% of market value of the total equity portfolio shall be stocks rated "B" or better by Standard & Poor's, with preference given to "Blue Chip" stocks. "No Load" funds with excellent earnings and growth history are preferred. All fixed income securities must have at least "A" rating by Moody's or Standard & Poor's at the time of purchase. Shares in externally managed fixed income funds may only be purchased with prior approval by the President or Board. In addition, the policy specifically prohibits eleven types of high risk transactions, such as futures, commodities, and margin purchases.
  - ✓ **Custodial Credit Risk** – Custodial credit risk for investments is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if that party fails. The University's custodial risk is limited. All investments are in the name of the University. Securities held by a third party are either collateralized or part of the SAFE program previously mentioned in the Deposit section.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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- ✓ **Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. The University’s investment policy reduces risk of this type of loss. The policy requires that equity investments be diversified so that no single issue shall exceed 5% nor shall any single industry exceed 10% of the market value of the total equity securities or any one issuing corporation. Shares in externally managed equity mutual funds may only be purchased with prior approval of the University’s President or Board. These same criteria apply to fixed income investments.
  
- ◆ **Interest Rate Risk** – Interest rate risk involves the adverse effect changes in interest rates could have on the fair value of an investment. As a means of limiting its exposure to fair value losses arising from interest rates, the University’s investment policy require that maturities of investments be matched against cash flow needs to maximize yields.
  
- ◆ **Foreign Currency Risk** – This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The policy of the University limits global stocks to a target of 6% of total investments thereby guarding against foreign currency risk.

### **Note 3 – Receivables**

Receivables are summarized as follows:

<b><u>Accounts Receivable</u></b>	
Federal and State Agencies	\$1,375,524.10
Third-Party Contracts	1,164,469.12
Students	2,539,022.47
Other	259,648.09
Total Accounts Receivable	5,338,663.78
<b><u>Notes Receivable</u></b>	
Current	310,820.57
Noncurrent	1,663,220.73
Total Notes Receivable	\$1,974,041.30

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2008, was as follows:

	Restated Beginning Balance	Adjustment/ Reclassification	Additions	Deductions	Ending Balance
Land	\$ 3,732,428.89	\$	\$	\$	\$ 3,732,428.89
Improvements Other Than Buildings	10,281,105.80	1,788,234.15			12,069,339.95
Buildings	71,778,085.23	4,227,444.93			76,005,530.16
Equipment	14,974,837.75		1,727,859.43		16,702,697.18
Library Holdings	18,897,713.83		800,190.17	(21,231.36)	19,676,672.64
Construction in Progress	1,711,614.50	(6,015,679.08)	5,244,196.65		940,132.07
Total	121,375,786.00		7,772,246.25	(21,231.36)	129,126,800.89
Less: Accumulated Depreciation					
Improvements Other Than Buildings	3,792,422.70		468,489.51		4,260,912.21
Buildings	31,874,732.33		1,758,501.48		33,633,233.81
Equipment	6,784,783.87		1,485,876.23		8,270,660.10
Library Holdings	18,897,713.83		800,190.17	(21,231.36)	19,676,672.64
Total Accumulated Depreciation	61,349,652.73		4,513,057.39	(21,231.36)	65,841,478.76
Capital Assets, Net	\$ 60,026,133.27	\$	\$3,259,188.86	\$	\$ 63,285,322.13

#### Note 5 – Defined Benefit Pension Plan

##### A. Plan Description

The University contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the University are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the University of North Alabama. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

#### **B. Funding Policy**

Employees, with the exception of full-time law enforcement officers, are required by statute to contribute 5 percent of their salary to the Teachers' Retirement System. As of January 1, 2001, full-time law enforcement officers (as defined by Act Number 2000-669, Acts of Alabama, page 1335) are required by statute to contribute 6 percent of their salary to the Teachers' Retirement System. The University of North Alabama is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. The percentages of the contributions and the amount of contributions made by the University of North Alabama and its employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	2008	2007	2006
Total Percentage of Covered Payroll	16.75%	14.36%	13.17%
<b>Contributions:</b>			
Percentage Contributed by the University	11.75%	9.36%	8.17%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by University	\$4,491,405.36	\$3,209,364.16	\$2,300,212.39
Contributed by Employees	1,773,775.87	1,612,723.63	1,411,095.48
Total Contributions	<u>\$6,265,181.23</u>	<u>\$4,822,087.79</u>	<u>\$3,711,307.87</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### **Note 6 – Other Postemployment Benefits (OPEB)**

##### **A. Plan Description**

The University contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16 as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4 provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

##### **B. Funding Policy**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 255 to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust fund assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2008	
	Effective 10/01/2007- 02/29/2008	Effective 03/01/2008- 09/30/2008
Individual Coverage – Non-Medicare Eligible	\$ 90.00	\$ 97.54
Individual Coverage – Medicare Eligible	\$ 1.14	\$ 1.14
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$222.00	\$284.94
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$181.00	\$188.54
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$133.14	\$188.54
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 92.14	\$ 92.14
Surviving Spouse – Non-Medicare Eligible	\$581.00	\$581.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$713.00	\$713.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$672.00	\$672.00
Surviving Spouse – Medicare Eligible	\$299.00	\$299.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$431.00	\$431.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$390.00	\$390.00

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2008***

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For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium.

The University is required to contribute at a rate specified by the State for each active employee. The University's share of premiums for retired employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for retirees:

Fiscal Year Ended September 30,	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2008	\$1,136,232.00	100%
2007	\$1,235,936.00	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

**Note 7 – Construction and Other Significant Commitments**

As of September 30, 2008, the University of North Alabama had been awarded approximately \$4,546,621.52 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

**Note 8 – Accounts Payable**

Accounts payable and accrued liabilities represent amounts due at September 30, 2008, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 481,206.67
Benefits	89,616.23
Interest Payable	475,317.80
Supplies	2,371,613.92
Other	445,893.54
Total	<u>\$3,863,648.16</u>

***Notes to the Financial Statements***  
***For the Year Ended September 30, 2008***

**Note 9 – Lease Obligations**

**Operating Leases**

The University is obligated under a certain lease accounted for as an operating lease. Operating leases do not give rise to property rights. During the fiscal year ended September 30, 2008, the University paid a total of \$49,127.00 for operating leases.

The following is a schedule by fiscal year of future minimum rental payments required under operating leases for facilities that have an initial or remaining noncancelable lease term in excess of one year as of September 30, 2008:

Fiscal Years	Principal	Interest	Total
2008-2009	\$ 29,486.68	\$ 19,640.32	\$ 49,127.00
2009-2010	30,887.30	18,239.70	49,127.00
2010-2011	32,354.45	16,772.55	49,127.00
2011-2012	33,891.28	15,235.72	49,127.00
2012-2013	35,501.12	13,625.88	49,127.00
2013-2014	37,187.42	11,939.58	49,127.00
2014-2015	38,953.82	10,173.18	49,127.00
2015-2016	40,804.13	8,322.87	49,127.00
2016-2017	42,742.33	6,384.67	49,127.00
2017-2018	44,772.59	4,354.41	49,127.00
2018-2019	46,899.27	2,227.73	49,127.00
Total Minimum Payments Required	<u>\$413,480.39</u>	<u>\$126,916.61</u>	<u>\$540,397.00</u>

**Note 10 – Long-Term Liabilities**

Long-term liabilities activity for the year ended September 30, 2008, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b><u>Bonds and Notes Payable:</u></b>					
Revenue Bonds	\$23,685,000.00	\$	\$755,000.00	\$22,930,000.00	\$ 845,000.00
Note Payable	642,008.20			642,008.20	642,008.20
Total Bonds and Notes Payable	<u>24,327,008.20</u>		<u>755,000.00</u>	<u>23,572,008.00</u>	<u>1,487,008.20</u>
<b><u>Other Liabilities:</u></b>					
Compensated Absences	1,042,987.99	9,562.33		1,052,550.32	92,397.59
Total Other Liabilities	<u>1,042,987.99</u>	<u>9,562.33</u>		<u>1,052,550.32</u>	<u>92,397.59</u>
Total Long-Term Liabilities	<u>\$25,369,996.19</u>	<u>\$9,562.33</u>	<u>\$755,000.00</u>	<u>\$24,624,558.52</u>	<u>\$1,579,405.79</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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The Note Payable in the amount of \$642,008.20 at September 30, 2008, represents a promissory note entered into by the University on February 4, 2004. The note was initially in the amount of \$727,008.20. The note is due in one lump sum payment on January 29, 2009, but the University is allowed to make prepayments toward the principle without penalty. The note carried an interest rate of 2.4% at inception and the rate is variable with no set floor or ceiling.

The Revenue Bonds were issued in 1999 and 2003 by the Board of Trustees to provide funds for construction of additional residential facilities.

A trustee holds sinking fund deposits, including earnings on investments of these deposits. Revenue from student tuition and fees sufficient to pay the annual debt service are pledged to secure the bonds. Principal and interest maturity requirements on bond debt are as follows:

Fiscal Year	Revenue Bonds		Totals
	Principal	Interest	
2008-2009	\$ 845,000.00	\$ 1,095,900.01	\$ 1,940,900.01
2009-2010	940,000.00	1,057,673.76	1,997,673.76
2010-2011	1,045,000.00	1,013,016.26	2,058,016.26
2011-2012	1,165,000.00	961,906.26	2,126,906.26
2012-2013	1,300,000.00	900,800.01	2,200,800.01
2013-2014	1,445,000.00	831,086.26	2,276,086.26
2014-2015	1,605,000.00	755,210.01	2,360,210.01
2015-2016	1,780,000.00	669,703.76	2,449,703.76
2016-2017	1,970,000.00	573,418.76	2,543,418.76
2017-2018	2,180,000.00	466,249.38	2,646,249.38
2018-2019	470,000.00	399,250.00	869,250.00
2019-2020	350,000.00	381,247.50	731,247.50
2020-2021	370,000.00	365,947.50	735,947.50
2021-2022	385,000.00	349,711.25	734,711.25
2022-2023	400,000.00	332,537.50	732,537.50
2023-2024	420,000.00	314,287.50	734,287.50
2024-2025	440,000.00	293,837.50	733,837.50
2025-2026	460,000.00	271,337.50	731,337.50
2026-2027	485,000.00	247,712.50	732,712.50
2027-2028	510,000.00	222,837.50	732,837.50
2028-2029	535,000.00	196,712.50	731,712.50
2029-2030	565,000.00	169,242.50	734,242.50
2030-2031	595,000.00	140,956.25	735,956.25
2031-2032	620,000.00	112,100.00	732,100.00
2032-2033	650,000.00	81,937.50	731,937.50
2033-2034	685,000.00	50,231.25	735,231.25
2034-2035	715,000.00	16,981.25	731,981.25
Totals	<u>\$22,930,000.00</u>	<u>\$12,271,831.97</u>	<u>\$35,201,831.97</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2008*

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#### **Bond Issuance Costs and Discounts**

The University has bond issuance costs as well as bond discounts in connection with the issuance of its 1999 and 2003 Revenue Bonds. The issuance costs and bond discount are being amortized using the straight-line method over the life of the bonds.

	Issuance Costs	Discount
Total Issuance Costs and Discount	\$267,252.57	\$432,577.50
Amount Amortized Prior Years	72,513.53	130,008.29
Balance Issuance Costs and Discount	194,739.04	302,569.21
Current Amount Amortized	11,170.70	18,826.18
Balance Issuance Costs and Discount	<u>\$183,568.34</u>	<u>\$283,743.03</u>

#### **Note 11 – Risk Management**

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. The University pays an annual premium based on the amount of coverage requested. The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. The University purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the University has fidelity bonds on the University's president, vice president of business and administrative affairs, controller, financial systems manager as well as on all other university personnel who handle funds.

Employee health insurance for the University of North Alabama is provided through Blue Cross/Blue Shield of Alabama. The plan was established to provide a uniform plan of health insurance for employees of the University. Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and are based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The University contributes a specified amount monthly to the plan for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the University's coverage in any of the past three fiscal years.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2008***

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Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the University.

**Note 12 – Endowments**

If a donor has not provided specific instructions, state law permits the Board of Trustees to authorize for expenditure the net appreciation (realized and unrealized) of the investments of endowment funds. When administering its power to spend net appreciation, the Board of Trustees is required to consider the University’s “long and short-term needs, present and anticipated financial requirements, expected total return on its investments, price-level trends, and general economic condition.” Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established.

The Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, 3-6 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income

**Note 13 – Related Parties**

**University of North Alabama Alumni Association**

The University of North Alabama Alumni Association was created to promote scientific, literary, and educational purposes, advancement of the University of North Alabama, and for the encouragement and support of its students and faculty. This report contains no financial statements of the University of North Alabama Alumni Association.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2008***

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**Note 14 – Net Asset Restatement**

Prior period adjustments have been made as outlined below:

Beginning Net Assets September 30, 2007	\$82,391,846.14
<u>Prior Period Adjustments</u>	
Restatement of Accumulated Depreciation	(91,003.32)
Restatement of Equipment	206,022.37
Total Adjustments	<u>115,019.05</u>
Net Assets October 1, 2007, as Restated	<u>\$82,506,865.19</u>

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*Notes to the Financial Statements*  
*University of North Alabama Foundation*  
*September 30, 2008 and 2007*

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**ORGANIZATION’S ACTIVITIES**

The University of North Alabama Foundation (the “Foundation”), is a nonprofit organization existing to assist the University of North Alabama (the “University”), a public institution of higher education, in promoting, sponsoring, fostering and carrying out activities to broaden educational opportunities for and services to the students and alumni.

**BASIS OF PRESENTATION**

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) Number 117, Financial Statements of Not-for-Profit Organizations. Under SFAS Number 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of University of North Alabama Foundation and its wholly owned subsidiary, Campus Projects, LLC. All material interorganization transactions have been eliminated in consolidation.

**CONTRIBUTIONS**

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Endowment contributions and investments are permanently restricted by the donor. Investment earnings available for distribution are recorded in unrestricted net assets. Investment earnings with donor restrictions are recorded in temporarily or permanently restricted net assets based on the nature of the restrictions.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

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Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

**RECLASSIFICATIONS**

Certain reclassifications of 2008 comparative information have been made to conform with the 2007 presentation.

**PLEDGES (Promises to Give)**

Unconditional promises to give are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises to give are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

**ACCOUNTING METHOD**

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

**CASH AND CASH EQUIVALENTS**

The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents as reported in the Statement of Cash Flows excludes cash restricted for long-term investment. Banks holding the Foundation's cash balances insure the account up to \$250,000 through the Federal Deposit Insurance Corporation. These cash funds are held in interest bearing accounts.

**EQUIPMENT**

Equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 7 years. As permitted by SFAS Number 93, the Foundation does not recognize depreciation on fine art and furniture collectibles. In addition, the Foundation utilizes certain facilities and equipment owned by the University. Such facilities and equipment are not recorded on the books of the Foundation.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

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**INCOME TAXES**

The Foundation has been granted tax-exempt status as provided by Section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying statement.

**FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**INVESTMENTS**

Investments are composed of various stocks, mutual funds and real estate and are carried at Fair Market Value.

**INVENTORIES**

Inventory is stated at the lower of cost or market, using the first-in, first-out method of inventory valuation.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

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**NOTE 2 – PLEDGES RECEIVABLE**

As of September 30, 2008 and 2007, the Foundation has pledges receivable totaling \$86,425 and \$99,691, respectively. No allowance has been made for uncollectible amounts. Most pledges receivable are restricted by donors for scholarships or are available for general operating support purposes. All pledges receivable at September 30, 2008 and 2007 are due within one to four years. The total pledges receivable as of September 30, 2008 and September 30, 2007 are permanently restricted. Net pledges receivable were discounted to present value at September 30, 2008 and 2007 using a discount rate of 4%. The net effect at September 30 is as follows:

	2008	2007
Total Pledge Receivable	\$89,823	\$105,000
Unamortized Discount	(3,399)	(5,309)
<b>NET PLEDGES RECEIVABLE</b>	<b>\$86,424</b>	<b>\$ 99,691</b>

**NOTE 3 – INVESTMENTS**

Investments are reported at their market value. Securities traded on a national securities exchange are valued at the last reported sales price on the last business day of the year. Investments traded in the over-the-counter market and listed securities for which no sale was reported on that date are valued at fair value based upon the most recently reported bid prices. Short-term investments are valued at cost which approximates market. Certain other investments are valued at fair value as determined by the Foundation or its trustee banks.

Realized and unrealized investment gains or losses are determined by comparison of asset cost to net proceeds received at the time of disposal and changes in the difference between market values and cost, respectively. These amounts are reflected in the financial statements as net unrealized and realized gain or loss on investments.

The Foundation has established a common investment fund for its restricted funds which allows for the commingling of various trust assets into the common investment fund. The common investment fund is maintained at one trustee bank in 2008 and two separate trustee banks in 2007. Investment in the funds is limited only to the trust funds of the Foundation.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

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Investments held by the Foundation consisted of the following at September 30:

	2008		2007	
	Cost	Market	Cost	Market
Short Term Reserves and Cash	\$ 3,399,692	\$ 3,399,692	\$ 131,055	\$ 131,055
Fixed Income	4,648,526	4,472,079	2,452,759	2,586,939
Equities	7,511,103	6,649,557	9,374,326	10,963,571
<b>TOTAL INVESTMENTS</b>	<b>\$15,559,321</b>	<b>\$14,521,328</b>	<b>\$11,958,140</b>	<b>\$13,681,565</b>

**NOTE 4 – FIXED ASSETS**

Fixed assets consisted of the following at September 30:

	2008	2007
Donated Artifacts and Collectibles	\$273,950	\$263,650
Furniture and Equipment	24,364	24,364
Computer Software	9,700	9,700
Sub-Total	308,014	297,714
Less Accumulated Depreciation	(34,064)	(33,801)
<b>TOTAL FIXED ASSETS</b>	<b>\$273,950</b>	<b>\$263,913</b>

Depreciation expense for the years ending September 30, 2008 and 2007 was \$263 and \$2,342, respectively, included in supporting services.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

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**NOTE 5 – PROGRAM SUPPORT**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated to Other Program Support as follows:

	2008	2007
Decade Reunion	\$ 2,751	\$
Pride of Dixie Bank	15,223	
UNA Coffee Table Books		18,857
Rogers Hall	164,752	
Leo II	19,139	44,281
Coby Hall Campaign	700	
Baseball Stadium	278,261	
Shoals Symphony at UNA	2,682	2,789
LM Harrison Plaza		3,569
Other Program Support	2,661	1,302
<b>TOTAL OTHER PROGRAM SUPPORT</b>	<b>\$486,169</b>	<b>\$70,798</b>

**NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS**

Donor-imposed restrictions on temporarily restricted net assets were satisfied for the years ended September 30, as follows:

	2008	2007
Purpose for which Restricted Contributions were used:		
Program Services	\$ 869,064	\$253,605
Instruction	161,706	130,587
Scholarships	243,253	151,684
Loss on Pledges	25,000	15,000
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>\$1,299,023</b>	<b>\$550,876</b>

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***Notes to the Financial Statements***  
***University of North Alabama Foundation***  
***September 30, 2008 and 2007***

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**NOTE 7 – NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes at September 30:

	2008	2007
Program Services	\$1,192,849	\$1,809,860
Instruction	1,022,370	1,961,229
Scholarships	1,025,544	2,222,577
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$3,240,763</u>	<u>\$5,993,666</u>

**NOTE 8 – NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS**

Permanently restricted net assets in the following amounts are restricted to investments in perpetuity, the income which is expendable for the following purposes at September 30:

	2008	2007
Program Services and Instruction	\$ 5,042,300	\$ 4,957,238
Scholarships	7,273,706	6,533,467
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$12,316,006</u>	<u>\$11,490,705</u>

**NOTE 9 – ANNUITY GIFTS AND OBLIGATIONS**

Gifts are made to the Organization in the form of gift annuities. A gift annuity is a simple contract between the donor and University of North Alabama Foundation. In exchange for the donor's contribution, UNA Foundation promises to make fixed, guaranteed payments for life to the annuitant. The amount is based on the age of the annuitant, in accordance with UNA Foundation's rate schedule. The rate schedule is those suggested by the American Council on Gift Annuities. The annuity payments are a general obligation of UNA Foundation.

Obligations under annuity contracts at September 30 are as follows:

	2008	2007
Current Portion	\$ 65,854	\$ 65,197
Deferred	217,846	197,792
TOTAL ANNUITY OBLIGATIONS	<u>\$283,700</u>	<u>\$262,989</u>

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*Notes to the Financial Statements*  
*University of North Alabama Foundation*  
*September 30, 2008 and 2007*

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**NOTE 10 – CONTRIBUTED SERVICES**

Land has been transferred from the UNA Foundation to the University of North Alabama for the benefit of the Foundation. The UNA Foundation received a credit for the transfer that was used to offset contributed services provided by the University. The credit provided to the Foundation for the years ended September 30, 2008 and 2007 was \$0 and \$90,503, respectively.

**NOTE 11 – CAMPUS PROJECTS, LLC**

Campus Projects, LLC was credited in 2005 with the sole member being University of North Alabama Foundation. In 2005, the Foundation transferred assets to the LLC that did not meet the objectives of the Foundation.

**NOTE 12 – PRIOR PERIOD ADJUSTMENT**

During the period ended September 30, 2008, the Foundation discovered errors made in the value of annuities payable. Annuities payable were overstated by \$171,737. Adjustments to correct this error resulted in an increase to Temporarily Restricted Net Assets of \$171,737 as of September 30, 2007. The 2007 financial statements have been restated to reflect the decrease in annuities payable.

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*Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2008***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Student Financial Assistance Cluster</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Programs</u></b>		
Federal Pell Grant Program	84.063	
Federal Pell Grant Program	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Work-Study Program	84.033	
Federal Work-Study Program	84.033	
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Supplemental Educational Opportunity Grants	84.007	
Academic Competitiveness Grants	84.375	
Academic Competitiveness Grants	84.375	
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	
National Science and Mathematics Access to Retain Talent (SMART) Grants	84.376	
Total Student Financial Assistance Cluster (M)		
<b><u>Highway Safety Cluster</u></b>		
<b><u>U. S. Department of Transportation</u></b>		
<b><u>Passed Through the North Alabama Highway Safety Office</u></b>		
Safety Belt Performance Grants	20.609	07-HS-K4-004
Alcohol Traffic Safety and Drunk Driving Prevention Incentive Grants	20.601	06-HS-K8-019
Total Highway Safety Cluster		
<b><u>Special Education Cluster (IDEA)</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Special Education - Grants to States (IDEA, Part B)	84.027	N.A.
Special Education - Grants to States (IDEA, Part B)	84.027	N.A.
Total Special Education - Grants to States (IDEA, Part B)		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
07/01/2008-06/30/2009	\$ 5,586,461.00	\$ 5,586,461.00	\$ 1,052,155.78	\$ 1,052,155.78
07/01/2007-06/30/2008	4,689,944.00	4,689,944.00	3,888,499.49	3,888,499.49
07/01/2007-06/30/2008	8,180.00	8,180.00	8,180.00	8,180.00
07/01/2006-06/30/2007	30.00	30.00	30.00	30.00
07/01/2008-06/30/2009	208,380.00	208,380.00	58,597.09	58,597.09
07/01/2007-06/30/2008	251,403.00	251,403.00	149,975.20	149,975.20
07/01/2008-06/30/2009	126,246.00	126,246.00	18,106.17	18,106.17
07/01/2007-06/30/2008	126,246.00	126,246.00	114,644.20	114,644.20
07/01/2008-06/30/2009	146,583.00	143,583.00	27,744.71	27,744.71
07/01/2007-06/30/2008	114,128.00	114,128.00	114,128.00	114,128.00
07/01/2008-06/30/2009	83,011.00	83,011.00	5,055.04	5,055.04
07/01/2007-06/30/2008	73,996.00	73,996.00	73,996.00	73,996.00
			<u>5,511,111.68</u>	<u>5,511,111.68</u>
05/19/2008-09/20/2008	700.00	700.00	658.25	658.25
11/30/2006-09/30/2008	900.00	900.00	544.36	544.36
			<u>1,202.61</u>	<u>1,202.61</u>
10/01/2007-09/30/2008	4,000.00	4,000.00	4,000.00	4,000.00
10/01/2007-09/30/2008	\$ 4,000.00	\$ 4,000.00	4,000.00	4,000.00
			<u>\$ 8,000.00</u>	<u>\$ 8,000.00</u>

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2008***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>OTHER FEDERAL AWARDS</u></b>		
<b><u>U. S. Department of Interior</u></b>		
<b><u>Direct Program</u></b>		
Conservation Grants Private Stewardship for Imperiled Species	15.632	
<b><u>U. S. Department of Housing and Urban Development</u></b>		
<b><u>Direct Program</u></b>		
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	
<b><u>National Science Foundation</u></b>		
<b><u>Direct Program</u></b>		
Mathematical and Physical Sciences	47.049	
<b><u>U. S. Department of State</u></b>		
<b><u>Passed Through Academy for Educational Development</u></b>		
Partnerships for Learning Undergraduate Studies (PLUS)	19.S-ECAAE-06-CA-121(MA)	AED 3683
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Direct Program</u></b>		
Rural Development, Forestry, and Communities	10.672	
<b><u>U. S. Department of Health and Human Services</u></b>		
<b><u>Direct Programs</u></b>		
Occupational Safety and Health Program	93.262	
Health Care and Other Facilities	93.887	
Nursing Workforce Diversity	93.178	
Nursing Workforce Diversity	93.178	
Total Nursing Workforce Diversity (M)		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
09/01/2006-09/30/2008	\$ 10,350.00	\$ 10,350.00	\$ 282.60	\$ 282.60
03/18/2007-03/17/2009	48,112.00	48,112.00	5,787.50	5,787.50
05/15/2007-04/30/2010	30,000.00	30,000.00	10,228.35	10,228.35
08/01/2006-05/31/2008	192,684.00	147,156.00	25,962.12	25,962.12
09/02/2005-09/30/2008	11,000.00	6,000.00	2,483.14	2,483.14
07/01/2007-06/30/2008	28,597.00	28,597.00	28,300.46	28,300.46
08/01/2008-07/31/2009	264,949.00	236,367.00	16,082.55	16,082.55
07/01/2008-06/30/2009	445,763.00	299,673.00	110,594.25	110,594.25
07/01/2007-06/30/2008	\$ 440,563.00	\$ 294,473.00	203,525.50	203,525.50
			<u>\$ 314,119.75</u>	<u>\$ 314,119.75</u>

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2008***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Department of Transportation</u></b>		
<b><u>Direct Program</u></b>		
Airport Improvement Program	20.106	
<b><u>Appalachian Regional Commission</u></b>		
<b><u>Direct Program</u></b>		
Appalachian Regional Development	23.001	
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
Special Education-State Personnel Development	84.323	U800288
Improving Teacher Quality State Grants	84.367	U800386
<b><u>Small Business Administration</u></b>		
<b><u>Passed Through the University of Alabama at Birmingham</u></b>		
Small Business Development Centers	59.037	7-603001-Z-0001-27
<b><u>Department of Defense</u></b>		
<b><u>Passed Through the University of Alabama at Birmingham</u></b>		
Procurement Technical Assistance for Business Firms	12.002	SP4800-03-2-0335
<b><u>Passed Through the Battelle Columbus Operations</u></b>		
Basic Scientific Research	12.431	W911NF-07-D-0001
<b><u>U. S. Department of Justice</u></b>		
<b><u>Passed Through the City of Florence</u></b>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	07-DJ-01-022
Edward Byrne Memorial Justice Assistance Grant Program	16.738	06-DJ-01-020
Total Edward Byrne Memorial Justice Assistance Grant Program		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
09/01/2004-09/01/2009	\$ 19,000.00	\$ 19,000.00	\$ 8,826.61	\$ 8,826.61
10/01/2006-09/01/2011	100,000.00	50,000.00	10,000.00	10,000.00
01/21/2008-06/30/2008	20,000.00	20,000.00	19,932.59	19,932.59
02/01/2008-09/30/2008	130,200.00	130,200.00	130,016.97	130,016.97
10/01/2007-09/30/2008	167,350.00	71,993.00	71,993.00	71,993.00
10/01/2007-09/30/2008	44,000.00	22,000.00	22,000.00	22,000.00
03/26/2008-10/31/2008	17,608.00	17,608.00	10,683.23	10,683.23
04/01/2008-03/31/2009	90,000.00	90,000.00	17,812.04	17,812.04
04/01/2007-03/31/2008	\$ 200,000.00	\$ 100,000.00	10,698.84	10,698.84
			<u>\$ 28,510.88</u>	<u>\$ 28,510.88</u>

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2008***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
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**General Service Administration  
Passed Through Alabama Department of  
Economic and Community Affairs**

Donation of Federal Surplus Personal Property (N)	39.003	N.A.
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Total Federal Awards

(M) = Major Programs

(N) = Non-Monetary Federal Assistance

(N.A.) = Not Available

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

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Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2007-09/30/2008	\$ 1,022.18	\$ 1,022.18	\$ 1,022.18	\$ 1,022.18
			<u>\$ 6,226,546.22</u>	<u>\$ 6,226,546.22</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2008***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the University of North Alabama and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

**Note 2 – Loans**

The University of North Alabama had the following loans and loan balances at September 30, 2008. These loans are not included in the Schedule of Expenditures of Federal Awards.

Program Title	Federal CFDA Number	Amount Outstanding
Federal Family Education Loans (FFEL)	84.032	\$16,901,161.77
Federal Perkins Loan Program – Federal Capital Contributions (FPL)	84.038	1,970,961.15
Nursing Student Loans	93.364	3,080.15
Total Loans		<u>\$18,875,203.07</u>

**Note 3 – Student Financial Assistance**

The Federal Work-Study Funds of \$565.00 were transferred and spent in Federal Supplemental Educational Opportunity Grants. \$25,140.00 of award year 2006-2007 was carried forward to the 2007-2008 award year and then carried forward to 2008-2009 Federal Work-Study Program.

\$12,625.00 of award year 2006-2007 Federal Supplemental Educational Opportunity Funds was carried forward to the 2007-2008 Federal Supplemental Educational Opportunity Program.

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## *Additional Information*

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***Board Members and Officials***  
***October 1, 2007 through September 30, 2008***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Bob Riley, Governor	Ex-Officio President	State of Alabama State Capitol 600 Dexter Avenue Montgomery, AL 36130	
Hon. Joseph P. Morton, State Superintendent of Education	Ex-Officio Member	Gordon Persons Building 50 N. Ripley Street Montgomery, AL 36130	
Hon. David B. Abramson	Member	29310 County Road 14 Florence, AL 35633	2008
Hon. Billy Don Anderson	Member	126 Clear View Drive Sheffield, AL 35660	2012
Mr. Richard H. Cater	Member	2484 Hawthorn Drive, Montgomery, AL 36111	2019
Hon. Lisa G. Ceci	Member	1319 Toney Drive SE Huntsville, AL 35803	2015
Hon. John B. Cole	Member	142 N. Sequoia Boulevard Florence, AL 35630	2015
Hon. Ronnie Flippo	Member	400 Marian Way Florence, AL 35634	2012
Mr. Rodney L. Howard	Member	107 Willow Oak Drive Muscle Shoals, AL 35661	2019
Hon. Steven F. Pierce	Member President Pro Tempore – June 2006 to June 2010	P. O. Box 2849 Florence, AL 35630	2012

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***Board Members and Officials***  
***October 1, 2007 through September 30, 2008***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Allen Long	Member	220 Cypress Forest Drive Florence, AL 35633	
Hon. Marc McCreary	Member	248 County Road 322 Florence, AL 35634	2009
Hon. Harvey F. Robbins	Member	Robbins Property Development 100-B South Main Street Tuscumbia, AL 35674	2015
 <b><u>Officials</u></b>			
Dr. William G. Cale, Jr.	President	University of North Alabama UNA Box 5004 Florence, AL 35632-0001	
Dr. W. Steven Smith	Vice-President for Business and Financial Affairs	University of North Alabama UNA Box 5003 Florence, AL 35632-0001	
Ms. Donna Ford Tipps	Controller	University of North Alabama UNA Box 5001 Florence, AL 35632-0001	

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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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We have audited the financial statements of the University of North Alabama as of and for the year ended September 30, 2008, and have issued our report thereon dated August 20, 2009. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of North Alabama Foundation and Subsidiary as described in our report on the University of North Alabama's financial statements. The financial statements of the University of North Alabama Foundation and Subsidiary were not audited in accordance with ***Government Auditing Standards*** and accordingly this report does not extend to the University of North Alabama Foundation and Subsidiary.

***Internal Control Over Financial Reporting***

In planning and performing our audit, we considered the University of North Alabama's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University of North Alabama's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University of North Alabama's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency 2008-01 described in the accompanying Schedule of Findings and Questioned Costs to be a significant deficiency in internal control over financial reporting.

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***Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance With  
Government Auditing Standards***

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A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

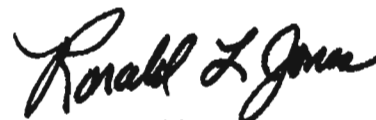
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University of North Alabama's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The University of North Alabama's response to the findings identified in our audit are described in the accompanying Auditee Response/Corrective Action Plan. We did not audit the University of North Alabama's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, President of the University, Board of Trustees, others within the entity, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

August 20, 2009

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# ***Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133***

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## **Compliance**

We have audited the compliance of the University of North Alabama with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2008. The University of North Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on the University of North Alabama's compliance based on our audit. The financial statements of the University of North Alabama Foundation and Subsidiary were not audited in accordance with OMB Circular A-133, accordingly, this report does not extend to the University of North Alabama Foundation and Subsidiary.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the University of North Alabama's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the University of North Alabama's compliance with those requirements.

In our opinion, the University of North Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2008. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2008-02

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***Report on Compliance With Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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**Internal Control Over Compliance**

The management of the University of North Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University of North Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University of North Alabama's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2008-02 to be significant deficiency.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We do not consider the significant deficiency described in the accompany Schedule of Findings and Questioned Costs to be a material weakness.

The University of North Alabama's response to the finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. We did not audit the University of North Alabama's response and, accordingly, we express no opinion on it.

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***Report on Compliance With Requirements Applicable to Each  
Major Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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This report is intended solely for the information and use of management, President of the University, Board of Trustees, others within the entity, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

August 20, 2009

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2008***

**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ Yes     X  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  X  Yes    \_\_\_\_\_ None reported

Noncompliance material to financial statements noted? \_\_\_\_\_ Yes     X  No

**Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ Yes     X  No

Significant deficiency(ies) identified that are not considered to be material weakness(es)?  X  Yes    \_\_\_\_\_ None reported

Type of opinion issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?  X  Yes    \_\_\_\_\_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.007	<u>Student Financial Assistance Cluster</u> Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants
84.032	Federal Family Education Loans
84.038	Federal Perkins Loan Program-Federal Capital Contributions
93.364	Nursing Student Loans
93.178	Nursing Workforce Diversity

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2008***

**Section I – Summary of Examiner's Results**

Dollar threshold used to distinguish between  
 Type A and Type B programs: \$300,000.00

Auditee qualified as low-risk auditee?   X   Yes        No

**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
2008-01	Internal Control	<p><b><u>Finding:</u></b>            The University failed to identify a \$64,893.91 difference in reconciling cash book balance to bank balance. An undocumented adjustment was made for this amount in order to bring the University's books into balance with the bank statements.</p> <p><b><u>Recommendation:</u></b>            The University should identify all differences in reconciling cash. All adjustments should be properly supported.</p>	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
2008-02	84.007	U. S. Department of Education  Federal Supplemental Educational Opportunity Grants  Contract number P007A070027 for 7/1/07 – 6/30/08	<p><b><u>Finding:</u></b>            According to 34 CFR 668.24, an institution shall make its records readily available for review by the Secretary or the Secretary's authorized representative at an institutional location designated by the Secretary or the Secretary's authorized representative."</p>	
	84.033	Federal Work-Study Program		

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2008***

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
	84.063	Contract number P033A070027 for 7/1/2007 – 6/30/2008  Federal Pell Grant Program	<p><b><u>Finding Continued:</u></b> And “shall maintain the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine eligibility for Title IV, HEA program funds in the format in which it was received by the institution, except that the SAR may be maintained in an imaged media format;” and “an institution shall keep records relating to its administration of the Federal Perkins Loan, FWS, FSEOG, or Federal Pell Grant Program for three years after the end of the award year for which the aid was awarded and disbursed under those programs,”</p> <p>The University failed to maintain and/or safeguard its students Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the 2007-2008 award year as required by regulations.</p> <p><b><u>Recommendation:</u></b> The University should follow the applicable Title IV regulations for maintaining and safeguarding its student data.</p>	
	84.375	Contract number P063P071035 for 7/1/2007 – 6/30/2008  Academic Competitiveness Grants		
	84.376	Contract number P375A071035 for 7/1/2007 – 6/30/2008  National Science and Mathematics Access to Retain Talent (SMART) Grants		
	84.032	Contract number P376S071035 for 7/1/2007 – 6/30/2008  Federal Family Education Loans		
	84.038	Federal Perkins Loan Program-Federal Capital Contributions		
	93.364	Nursing Student Loans		

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*Auditee Response/Corrective Action Plan*



September 11, 2009

Chief Examiner  
Mr. Ronald L. Jones  
State of Alabama  
Department of Examiners of Public Accounts  
P. O. 302251  
Montgomery, AL 36130-2251

Dear Mr. Jones:

Please find enclosed the University of North Alabama's response to the audit findings for the University for the period October 1, 2007 through September 30, 2008.

If you have any questions, please contact this office directly.

Sincerely,

W. Steven Smith  
Vice President for Business & Financial Affairs

WSS/sp

Enclosure

OFFICE of BUSINESS and FINANCIAL AFFAIRS

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## Corrective Action Plan

*For the Year Ended September 30, 2008*



As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the University of North Alabama has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2008.

Ref. No.	Finding/Noncompliance	
2008 01-	<p><u>Finding:</u> The University failed to identify a \$64,893.91 difference in reconciling cash book balance to bank balance. An undocumented adjustment was made for this amount in order to bring the University's books into balance with the bank statements.</p> <p><u>Recommendation:</u> The University should identify all differences in reconciling cash. All adjustments should be properly supported.</p>	
	<p><u>Response:</u> The University converted the financial portion of its administrative software system (Banner) on October 1, 2007. Some activity from third party software that populates the general ledger was not captured properly. The bank reconciliation detected the discrepancy, but the unrecorded transactions could not be identified. Cash has been reconciled each month following the entry noted in the finding and the University has implemented several measures to ensure proper identification of all cash transactions.</p>	

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## Corrective Action Plan

*For the Year Ended September 30, 2008*



As required by the Office of Management and Budget (OMB) Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Section .315(c), the University of North Alabama has prepared and hereby submits the following Corrective Action Plan for the findings included in the Schedule of Findings and Questioned Costs for the year ended September 30, 2008.

Ref. No.	Finding/Noncompliance
2008 02-	<p><u>Finding:</u> According to 34 CFR 668.24, “An institution shall make its records readily available for review by the Secretary or the Secretary’s authorized representative at an institutional location designated by the Secretary or the Secretary’s authorized representative.” And “shall maintain the Student Aid Report (SAR) or Institutional Student Information Record (ISIR) used to determine eligibility for Title IV, HEA program funds in the format in which it was received by the institution, except that the SAR may be maintained in an imaged media format;” and “An institution shall keep records relating to its administration of the Federal Perkins Loan, FWS, FSEOG, or Federal Pell Grant Program for three years after the end of the award year for which the aid was awarded and disbursed under those programs.”</p> <p>The University failed to maintain and/or safeguard its students’ Student Aid Report (SAR) or Institutional Student Information Record (ISIR) for the 2007-2008 award year as required by regulations.</p>

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		<p><u>Response:</u> The University of North Alabama agrees that it failed to maintain the 2007-2008 ISIR's as required by the regulations. This occurred during the University's conversion to a new SungardHE software system (Banner) beginning with the 2008-2009 academic year.</p> <p>The University will follow the applicable regulations for maintaining and safeguarding student financial aid data by performing a backup daily of all data in the financial aid database. The backup function has been implemented and the backup data is currently being maintained offsite from the campus computer center. No data will be deleted until at least five (5) years worth of historical data has been retained going forward from the 2008-2009 academic year.</p>	
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