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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 begin on page 11, and should be read in conjunction with the Notes to the Financial Statements starting on page 16. The Foundation's statements presented are the Statement of Financial Position and Statement of Activities, shown on page 15.

The following summary and management discussion of financial information is intended to provide the reader with an overview of the financial statements. Only the comparative figures for FY 2011 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 3.1% in the current fiscal year to \$99.5 million.

| ASSETS | 2012 | 2011 |
|---|-----------------------|-----------------------|
| Current Assets | | |
| Cash and Short-term Investments | \$ 53,879,221 | \$ 50,284,289 |
| Receivables | 6,472,153 | 5,631,693 |
| Inventory, Prepaid Expenses, and Other | 709,213 | 501,037 |
| Total Current Assets | 61,060,587 | 56,417,019 |
| Non-Current Assets | | |
| Restricted Cash and Long-term Investments | 34,212,548 | 32,969,979 |
| Long-term Receivables | 1,090,578 | 1,464,254 |
| Other Non Current Assets | 2,133,325 | 1,549,164 |
| Capital Assets, Net of Depreciation | 68,925,691 | 68,824,570 |
| Total Non-Current Assets | 106,362,142 | 104,807,967 |
| Total Assets | \$ 167,422,729 | \$ 161,224,986 |
| LIABILITIES | | |
| Current Liabilities | | |
| Accounts Payable and Accrued Liabilities | \$ 4,517,043 | \$ 3,217,749 |
| Deferred Revenue | 14,869,988 | 13,314,476 |
| Deposits Held in Custody for Others | 599,770 | 683,056 |
| Other Long-term Liabilities-Current Portion | 1,095,582 | 921,730 |
| Total Current Liabilities | 21,082,383 | 18,137,011 |
| Non-Current Liabilities | | |
| Long-term Liabilities | 46,847,627 | 46,595,803 |
| Total Liabilities | 67,930,010 | 64,732,814 |
| NET ASSETS | | |
| Invested in Capital Assets, Net of Related Debt | \$ 50,793,801 | \$ 48,832,031 |
| Restricted | 11,313,692 | 11,382,333 |
| Unrestricted | 37,385,226 | 36,277,808 |
| Total Net Assets | 99,492,719 | 96,492,172 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 167,422,729 | \$ 161,224,986 |

Cash and short-term investments increased by \$3.6 million. This increase reflects cash inflow from fall semester tuition and contributions for a capital project and endowments.

Receivables include grants, state appropriations, student accounts, and various operating receivables. State appropriations receivable consists of the general appropriation from the State of Alabama. Overall current receivables increased \$840,460 primarily due to an increase in external contracts and a working capital advance for Sodexo.

Restricted cash and long-term investments, which include both unrestricted and endowment investments, increased by \$1.2 million. The University monitors the investment portfolio to insure proper adherence to investment guidelines. This increase is due to a change in investment market value and additional endowment contributions.

Capital assets (net) remained primarily unchanged due to depreciation expense approximating asset additions.

Accounts payable and accrued liabilities increased \$1.3 million due primarily to outstanding payments for ongoing capital projects and an increase in an accrual for faculty salaries.

Long-term liabilities increased by \$251,824 primarily due to a change in maturity terms on bonds payable.

Net assets increased 3.1% overall. The University's net capital assets increased due to additional capital projects. Also, at the direction of the University's Board of Trustees, unrestricted revenues were increased to an amount equal to \$6.5 million or 25% of the University's current appropriation from the State.



Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents 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.

REVENUES

| | 2012 | 2011 |
|---|----------------------|----------------------|
| Operating Revenues | | |
| Student Tuition and Fees | \$ 36,210,967 | \$ 34,543,346 |
| Auxiliary Enterprises Revenue (net of scholarship allowances) | 8,889,268 | 7,817,686 |
| Grants and Contracts | 3,920,798 | 6,847,668 |
| Athletic Revenue | 771,761 | 968,049 |
| Other Operating Revenue | 1,457,589 | 988,719 |
| Total Operating Revenues | \$ 51,250,383 | \$ 51,165,468 |
| EXPENSES | | |
| Operating Expenses | 88,170,755 | 85,082,167 |
| Net Operating Income (Loss) | (36,920,372) | (33,916,699) |
| Non-Operating Revenues (Expenses) | | |
| State Appropriations | 26,926,329 | 25,444,717 |
| Federal Grants and Contracts | 10,313,890 | 10,839,239 |
| Gifts (Including Endowment) | 369,570 | 153,476 |
| Capital Grants, Contracts, and Gifts | 2,069,468 | 3,460,189 |
| Investment Income | 946,149 | 284,402 |
| Other Non-Operating Expense | (704,487) | (1,740,414) |
| Total Non-Operating Revenues-Net | 39,920,919 | 38,441,609 |
| Increase (Decrease) in Net Assets | 3,000,547 | 4,524,910 |
| Net Assets-Beginning of Year (Restated) | \$ 96,492,172 | \$ 91,967,262 |
| Net Assets-End of Year | \$ 99,492,719 | \$ 96,492,172 |

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 4.8% in FY 2012. Gross tuition revenue was up \$2 million. Scholarship allowances increased \$362,394.

Auxiliary revenue (net) 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. Operational revenue increased approximately \$1 million as compared to FY 2011. This is attributed to increases in housing , food service and athletic fee revenue.

Grants and contracts revenue decreased due to the cessation of federal stimulus funding in FY 2011.

Athletic revenue decreased 20.3% due to a reduction in ticket sales and an increase in funds deposited in the UNA Foundation.

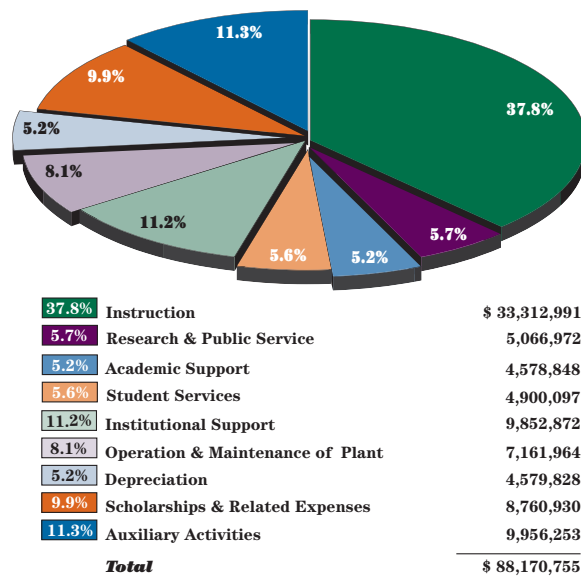
Operating expenses increased by \$3.1 million, or 3.6%. Each category is discussed in detail on page six.

Capital grants and contracts decreased \$1.3 million due to the completion of a federal transportation grant in FY 2011.

Endowment gifts reflect revenue to the University endowments. The majority of endowments established for the past two decades are held in the UNA Foundation, but small gifts are received in the University from year to year, and increased in FY 2012 by \$216,094.

Investment income increased during the fiscal year primarily due to market changes.



**2012 Operating Expenses
Functional Classification****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 increased 7.7% from FY 2011 to FY 2012 primarily due to faculty / staff promotions, salary adjustments and an increase in the accrual for faculty salaries.

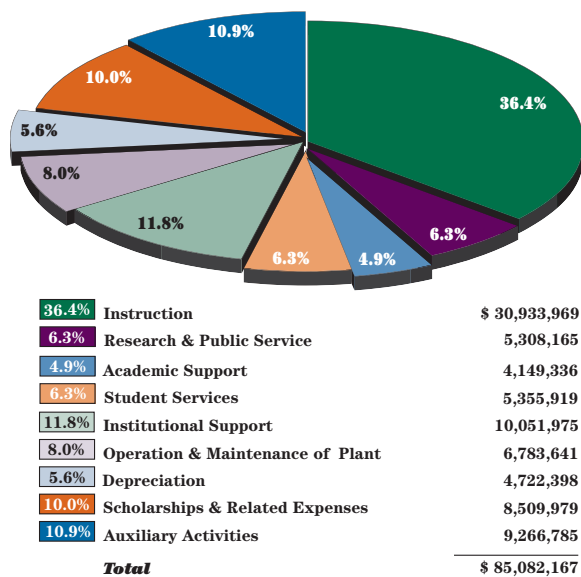
Academic support expenditures increased 10.4%. This was a result of increases in personnel expenses due to cost of living adjustments, returning costs to this area that had been covered previously by federal stimulus and purchases of non-capital equipment.

Student services decreased 8.5% due to the scholarship allowance calculation for athletic scholarships.

Operation and maintenance of plant expenditures increased primarily due to a cost of living adjustment resulting in increased labor costs.

Scholarship expenses increased 2.9% due to the awarding of additional institutional scholarships.

Auxiliary expenditures increased 7.4% from FY 2011. This is a result of additional expenses related to the new Dining Dollars fee and additional funds from the student athletic fee.

**2011 Operating Expenses
Functional Classification**

Operating Expenses by Natural Classification

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

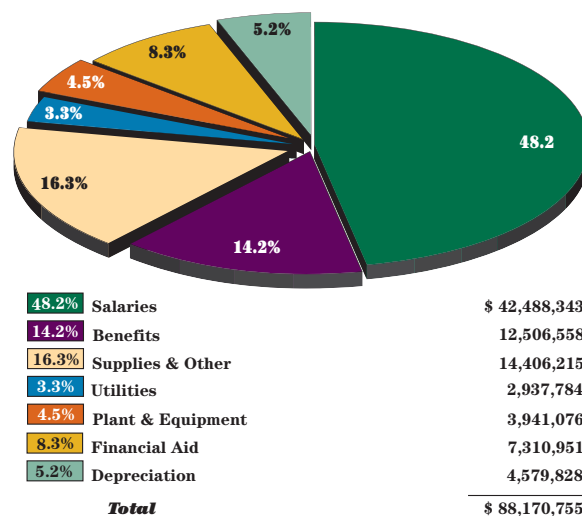
Salary expenses increased 4.6%. This is due to a cost of living adjustment, funding of new positions and an increase in the faculty salary accrual.

Benefits expense decreased 7.0% due primarily to a reduction in the employer's teacher retirement matching rate.

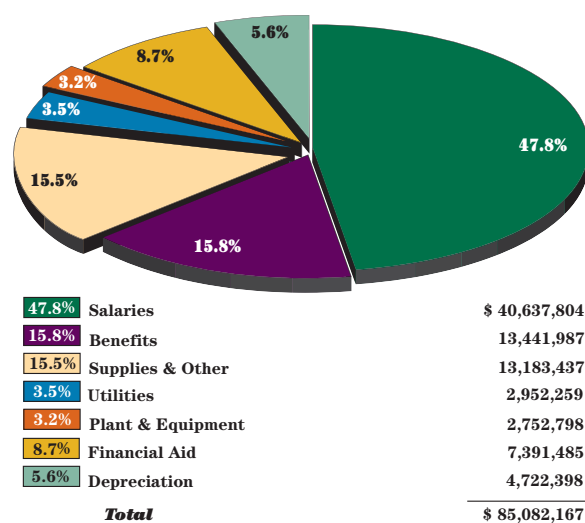
Supplies and other expenses increased 9.3% due greater availability of funds from increased revenue and funds made available from previous years.

Plant and equipment expenses increased 43.2% due to planned renovation and repair of facilities.

2012 Operating Expenses Natural Classification



2011 Operating Expenses Natural Classification



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.

| | 2012 | 2011 |
|--|----------------------|----------------------|
| Cash Provided (Used) By: | | |
| Operating Activities | \$ (30,201,696) | \$ (26,672,810) |
| Non-capital Financing Activities | 37,609,790 | 36,895,384 |
| Capital and Related Financing Activities | (3,944,945) | (7,524,342) |
| Investing Activities | 33,513 | 8,416,341 |
| Net Increase (Decrease) in Cash | 3,496,662 | 11,114,573 |
| Cash, Beginning of Year | 49,820,199 | 38,705,626 |
| Cash, End of Year | \$ 53,316,861 | \$ 49,820,199 |

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

Capital projects conducted and completed during the year included the George S. Lindsey Theater. In August 2012 the University issued 2012A General Fee Revenue Bonds in the amount of \$11,530,000 to refinance the 2003 Series Bonds and to issue new debt in the amount of \$1,463,346. The new debt was issued to supplement financing construction of the Academic Centre and Student Commons Building.

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 has experienced a significant reduction in its appropriation from the State of Alabama. The reduction amounted to approximately \$6.6 million for FY 2009 and FY 2010. The reduction for FY 2011 was an additional \$210,341. FY 2012 funding levels increased \$1.4 million from the previous year. The University continues to monitor the economic climate of the State as budgeting plans are considered.

The University's enrollment for Fall 2012 remained constant while efforts to attract and retain students are ongoing.

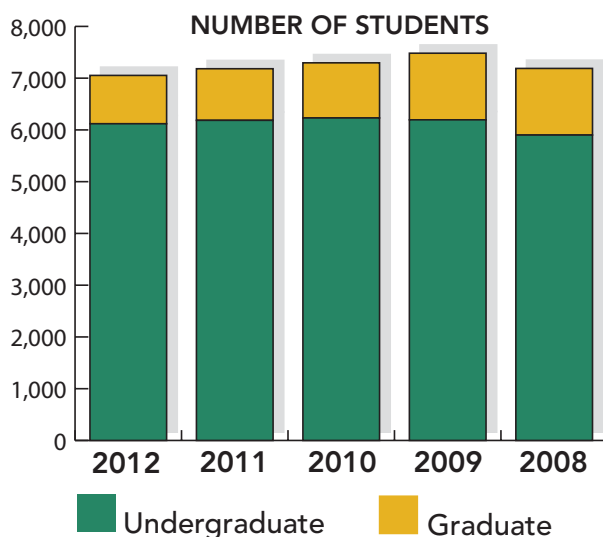
STUDENT FALL ENROLLMENT DATA (head count)

| | 2012 | % | 2011 | % | 2010 | % | 2009 | % | 2008 | % |
|----------------------------------|--------------|-----|--------------|-----|--------------|-----|--------------|-----|--------------|-----|
| Undergraduate | 6,119 | 87% | 6,185 | 86% | 6,231 | 85% | 6,195 | 85% | 5,901 | 82% |
| Graduate | 934 | 13% | 997 | 14% | 1,065 | 15% | 1,287 | 15% | 1,287 | 18% |
| Total | 7,053 | | 7,182 | | 7,279 | | 7,260 | | 7,188 | |
| FALL ENROLLMENT BREAKDOWN | | | | | | | | | | |
| Graduate | 934 | 13% | 997 | 14% | 1,048 | 14% | 1,065 | 15% | 1,287 | 18% |
| Seniors | 1,423 | 20% | 1,394 | 19% | 1,384 | 19% | 1,388 | 19% | 1,428 | 20% |
| Juniors | 1,278 | 18% | 1,248 | 17% | 1,128 | 16% | 1,171 | 16% | 1,128 | 16% |
| Sophomores | 1,161 | 17% | 1,262 | 18% | 1,298 | 18% | 1,157 | 16% | 1,091 | 15% |
| Freshmen | 1,695 | 24% | 1,718 | 24% | 1,917 | 26% | 2,004 | 28% | 1,733 | 24% |
| Special * | 562 | 8% | 563 | 8% | 504 | 7% | 462 | 6% | 521 | 7% |
| In-State | 5,604 | 79% | 5,508 | 77% | 5,498 | 76% | 5,398 | 74% | 5,284 | 74% |
| International | 476 | 7% | 362 | 5% | 669 | 9% | 485 | 7% | 948 | 13% |
| Out-of-State | 973 | 14% | 1,312 | 18% | 1,112 | 15% | 1,377 | 19% | 956 | 13% |
| Full-Time | 5,233 | 74% | 5,214 | 73% | 5,461 | 75% | 5,338 | 74% | 5,248 | 73% |
| Part-Time | 1,820 | 26% | 1,968 | 27% | 1,818 | 25% | 1,922 | 26% | 1,940 | 27% |
| Female | 4,096 | 58% | 4,098 | 57% | 4,191 | 58% | 4,088 | 56% | 3,994 | 56% |
| Male | 2,957 | 42% | 3,084 | 43% | 3,087 | 42% | 3,172 | 44% | 3,193 | 44% |
| Not-Reported | | | | | 1 | — | | | 1 | — |
| White | 5,164 | 73% | 5,188 | 72% | 5,251 | 72% | 5,102 | 70% | 4,714 | 64% |
| Black | 896 | 13% | 848 | 12% | 867 | 12% | 883 | 12% | 688 | 10% |
| Other | 993 | 14% | 1,146 | 16% | 1,161 | 16% | 1,275 | 18% | 1,921 | 26% |

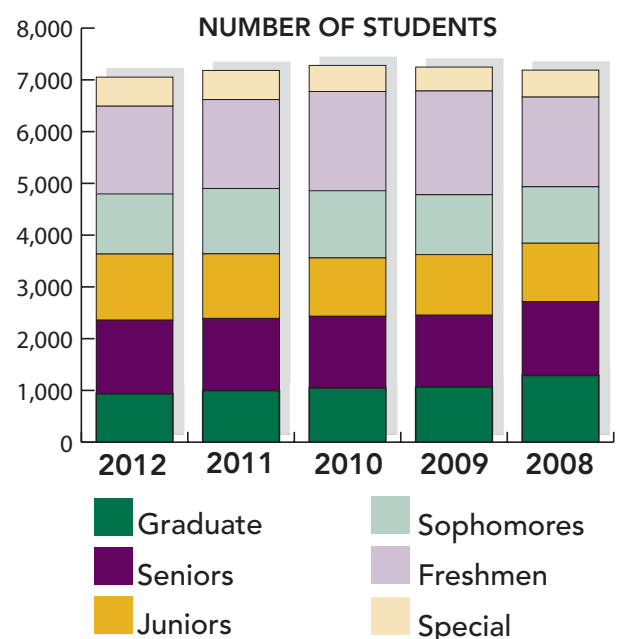
* Special includes all Non-classified, ESL and Postbaccalaureate

ENROLLMENT FALL SEMESTER**Five Year History**

Graduate and Undergraduate

**ENROLLMENT FALL SEMESTER****Five Year History**

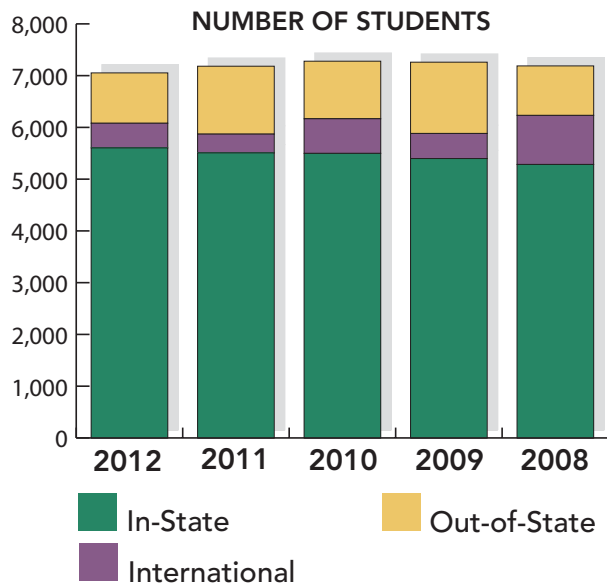
Graduate, Seniors, Juniors Sophomores, Freshmen and Special



ENROLLMENT FALL SEMESTER

Five Year History

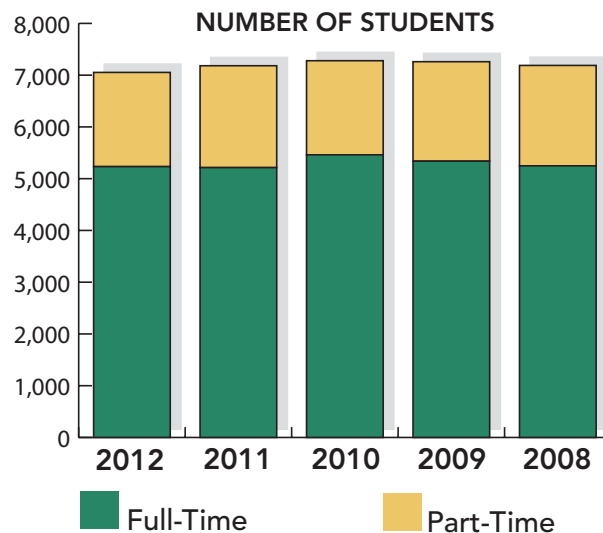
In-State, International
and Out-of-State



ENROLLMENT FALL SEMESTER

Five Year History

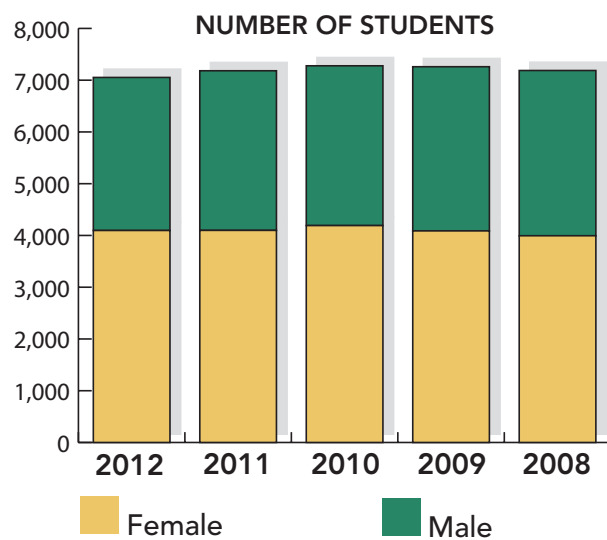
Full-Time and Part-Time



ENROLLMENT FALL SEMESTER

Five Year History

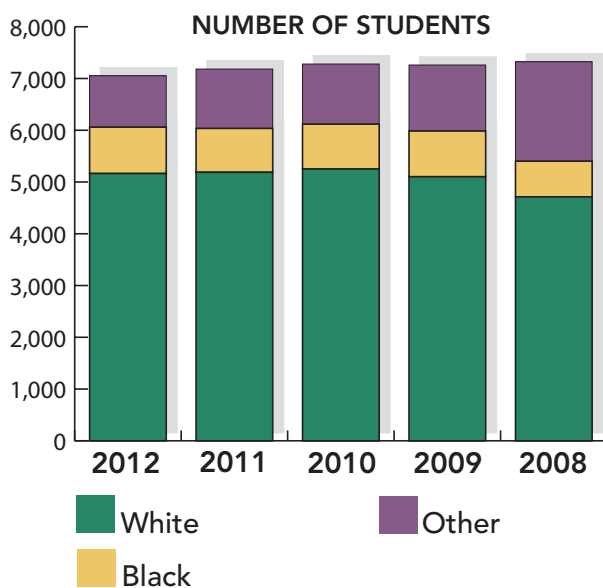
Female and Male



ENROLLMENT FALL SEMESTER

Five Year History

White, Black and Other



STATEMENT OF NET ASSETS**ASSETS**

Current Assets

| | As of September 30 | |
|-----------------------------|---------------------------|-------------------|
| | 2012 | 2011 |
| Cash and Cash Equivalents | \$ 53,278,482 | \$ 49,689,034 |
| Short-term Investments | 600,739 | 595,255 |
| Accounts Receivable | 6,272,639 | 5,355,357 |
| Inventories | 20,761 | 24,788 |
| Notes Receivable | 199,514 | 276,335 |
| Stadium Use Agreement | 35,501 | 33,891 |
| Other Assets | 652,951 | 442,359 |
| Total Current Assets | 61,060,587 | 56,417,019 |

Non-Current Assets

| | | |
|--------------------------------------|------------|------------|
| Restricted Cash and Cash Equivalents | 38,379 | 131,165 |
| Long-term Investments | 34,174,169 | 32,838,814 |
| Bond Issuance and Discount | 1,881,966 | 1,262,303 |
| Notes Receivable | 1,090,578 | 1,464,254 |
| Stadium Use Agreement | 251,359 | 286,861 |
| Capital Assets, Net | 68,925,691 | 68,824,570 |

Total Non-Current Assets

| | | |
|--|--------------------|--------------------|
| | 106,362,142 | 104,807,967 |
|--|--------------------|--------------------|

TOTAL ASSETS

| | | |
|--|-----------------------|-----------------------|
| | \$ 167,422,729 | \$ 161,224,986 |
|--|-----------------------|-----------------------|

LIABILITIES

Current Liabilities

| | | |
|--|--------------|--------------|
| Accounts Payable and Accrued Liabilities | \$ 4,517,043 | \$ 3,217,749 |
| Deferred Revenue | 14,869,987 | 13,314,476 |
| Deposits | 75,905 | 69,205 |
| Deposits Held in Custody for Others | 523,865 | 613,851 |
| Bonds Payable | 1,035,000 | 855,000 |
| Compensated Absences | 60,583 | 66,730 |

Total Current Liabilities

| | | |
|--|-------------------|-------------------|
| | 21,082,383 | 18,137,011 |
|--|-------------------|-------------------|

Non-Current Liabilities

| | | |
|----------------------|------------|------------|
| Bonds Payable | 45,660,000 | 45,455,000 |
| Compensated Absences | 1,187,627 | 1,140,803 |

Total Non-Current Liabilities

| | | |
|--|-------------------|-------------------|
| | 46,847,627 | 46,595,803 |
|--|-------------------|-------------------|

Total Liabilities

| | | |
|--|-------------------|-------------------|
| | 67,930,010 | 64,732,814 |
|--|-------------------|-------------------|

NET ASSETS

Invested in Capital Assets, Net of Related Debt

| | | |
|--|------------|------------|
| | 50,793,801 | 48,832,031 |
|--|------------|------------|

Restricted

Nonexpendable:

| | | |
|------------------------------|-----------|-----------|
| Scholarships and Fellowships | 2,973,390 | 2,529,352 |
|------------------------------|-----------|-----------|

Expendable:

| | | |
|---------------|-----------|-----------|
| Instructional | 6,220,678 | 5,828,077 |
| Loans | 2,091,291 | 2,288,808 |
| Debt Service | 28,333 | 736,097 |

Unrestricted

| | | |
|--|------------|------------|
| | 37,385,226 | 36,277,807 |
|--|------------|------------|

Total Net Assets

| | | |
|--|-------------------|-------------------|
| | 99,492,719 | 96,492,172 |
|--|-------------------|-------------------|

Total Liabilities and Net Assets

| | | |
|--|-----------------------|-----------------------|
| | \$ 167,422,729 | \$ 161,224,986 |
|--|-----------------------|-----------------------|

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

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**REVENUES**

Operating Revenues

| | Year Ended September 30 | |
|---|-------------------------|-------------------|
| | 2012 | 2011 |
| Student Tuition and Fees (Net of Scholarship Allowances) | \$ 36,210,967 | \$ 34,543,346 |
| Federal Grants and Contracts | 814,717 | 3,603,037 |
| State and Local Grants and Contracts | 3,037,590 | 2,921,000 |
| Nongovernmental Grants and Contracts | 68,491 | 323,631 |
| Auxiliary Enterprises Revenue (Net of Scholarship Allowances) | 8,889,268 | 7,817,686 |
| Athletic Revenue | 771,761 | 968,049 |
| Other Operating Revenue | 1,457,589 | 988,719 |
| Total Operating Revenues | 51,250,383 | 51,165,468 |

EXPENSES

Operating Expenses

Educational and General

| | | |
|------------------------------------|------------|------------|
| Instruction | 33,312,991 | 30,933,969 |
| Research | 169,940 | 313,011 |
| Public Service | 4,897,031 | 4,995,153 |
| Academic Support | 4,578,848 | 4,149,336 |
| Student Services | 4,900,097 | 5,355,919 |
| Institutional Support | 9,852,872 | 10,051,975 |
| Operation and Maintenance of Plant | 7,161,965 | 6,783,641 |
| Depreciation | 4,579,828 | 4,722,398 |
| Scholarships and Related Expenses | 8,760,930 | 8,509,979 |
| Auxiliary Enterprises | 9,956,253 | 9,266,786 |

Total Operating Expenses**88,170,755** **85,082,167****Operating Income / (Loss)****\$ (36,920,372)** **\$ (33,916,699)****Non-Operating Revenues / (Expenses)**

| | | |
|--|------------|-------------|
| State Appropriations | 26,926,329 | 25,444,717 |
| Federal Grants and Contracts | 10,313,890 | 10,839,239 |
| Investment Revenue - Net | 946,149 | 284,402 |
| Interest Expense on Capital Asset Related Debt | (636,660) | (1,608,364) |
| Other Non-operating Rev/ (Exp) | (67,827) | (132,050) |

Net Non-Operating Revenues**37,481,881** **34,827,944****Income Before Other Revenues, Expenses, Gains or Losses****\$ 561,509** **\$ 911,245****Other Revenues**

| | | |
|--------------------------------------|-----------|-----------|
| Capital Grants, Contracts, and Gifts | 2,069,468 | 3,460,189 |
| Additions to Permanent Endowments | 369,570 | 153,476 |

Total Other Revenues**2,439,038** **3,613,665****Increase / (Decrease) in Net Assets****\$ 3,000,547** **\$ 4,524,910****NET ASSETS****Net Assets - Beginning of Year (Restated)****\$ 96,492,172** **\$ 91,967,262****Net Assets - End of Year****\$ 99,492,719** **\$ 96,492,172***The accompanying Notes to the Financial Statements are an integral part of this statement.*

STATEMENT OF CASH FLOWS**CASH FLOWS FROM OPERATING ACTIVITIES****Year Ended September 30****2012****2011**

| | | |
|-------------------------------|---------------|---------------|
| Tuition and Fees | \$ 35,388,884 | \$ 35,357,429 |
| Grants and Contracts | 5,394,785 | 8,087,538 |
| Payments to Suppliers | (17,254,563) | (15,251,297) |
| Payments to Employees | (42,488,343) | (40,759,948) |
| Payments for Scholarships | (7,310,951) | (7,391,486) |
| Payments for Benefits | (12,465,880) | (13,535,956) |
| Payments for Utilities | (2,937,784) | (2,952,259) |
| Auxiliary Enterprises Revenue | 9,505,984 | 7,816,400 |
| Athletics Revenue | 771,761 | 968,050 |
| Other Receipts | 1,194,411 | 988,719 |

Net Cash Provided (Used) by Operating Activities**(30,201,696)****(26,672,810)****CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES**

| | | |
|--|------------|------------|
| State Appropriations | 26,926,329 | 25,444,717 |
| Gifts and Grants for Other than Capital Purchasing | 369,571 | 153,476 |
| Federal Grants and Contracts | 10,313,890 | 10,839,239 |
| Other Receipts (Payments) | | 457,952 |

Net Cash Provided (Used) by Non-Capital Financing Activities**37,609,790****36,895,384****CASH FLOW FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

| | | |
|--|--------------|--------------|
| Purchases of Capital Assets and Construction | (3,808,823) | (8,563,295) |
| Grants and Gifts for Capital Assets | 2,069,468 | 3,460,189 |
| Stadium Use Agreement Principal | 33,891 | 32,354 |
| Bond Issuance Cost and Discount | (306,034) | (902,283) |
| Deposits with Trustees | (11,145,000) | (24,959,136) |
| Principal Paid on Capital Debt | 9,848,213 | 25,165,000 |
| Interest Paid on Capital Debt | (636,660) | (1,757,171) |

**Net Cash Provided (Used) by
Capital and Related Financing Activities****(3,944,945)****(7,524,342)****CASH FLOWS FROM INVESTING ACTIVITIES**

| | | |
|-------------------------|-----------|-----------|
| Investment Revenue | 946,149 | 284,402 |
| Purchase of Investments | (912,636) | 8,131,939 |

Net Cash Provided (Used) by Investing Activities**33,513****8,416,341****NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS****3,496,662****11,114,573****CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR****49,820,199****38,705,626****CASH AND EQUIVALENTS - END OF YEAR****\$ 53,316,861****49,820,199**

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES

| | <u>2012</u> | <u>2011</u> |
|--|------------------------|---------------------|
| Operating Loss | \$ (36,920,372) | (33,916,699) |
| Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | |
| Depreciation Expense | 4,579,828 | 4,722,398 |
| Change in Assets and Liabilities: | | |
| (Increase)/Decrease in Receivables | (917,281) | 1,603,834 |
| (Increase)/Decrease in Inventories | 4,027 | (1,286) |
| (Increase)/Decrease in Notes Receivable | 450,497 | |
| (Increase)/Decrease in Prepaid Assets | (210,592) | (20,244) |
| Increase/(Decrease) in Accounts Payable | 1,299,294 | 407,159 |
| Increase/(Decrease) in Deferred Revenue | 1,555,512 | 450,119 |
| Increase/(Decrease) in Deposits | 6,700 | |
| Increase/(Decrease) in Deposits Held for Others | (89,987) | |
| Increase/(Decrease) in Compensated Absences | 40,678 | 81,909 |
| Net Cash Provided (Used) by Operating Activities | \$ (30,201,696) | (26,672,810) |

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



UNIVERSITY OF NORTH ALABAMA FOUNDATION**STATEMENT OF FINANCIAL POSITION**

| ASSETS | As of September 30 | |
|--|---------------------------|----------------------|
| | 2012 | 2011 |
| Current Assets: | | |
| Cash and Cash Equivalents | \$ 2,419,906 | \$ 1,813,271 |
| Accounts Receivable | 4,558 | 58,350 |
| Pledges Receivable | 446,774 | 187,533 |
| Inventories and Prepaids | 10,863 | 8,548 |
| Interest Receivable | 26,924 | 16,832 |
| Total Current Assets | 2,909,025 | 2,084,534 |
| Total Investments | 17,737,305 | 15,608,689 |
| Fixed Assets: | | |
| Donated Artifacts and Collectibles | 273,950 | 273,950 |
| Furniture and Equipment | 34,064 | 34,064 |
| | 308,014 | 308,014 |
| Less: Accumulated Depreciation | 34,064 | 34,064 |
| Total Fixed Assets | 273,950 | 273,950 |
| Other Assets: | | |
| Pledges Receivable | 1,099,025 | 292,104 |
| Total Other Assets | 1,099,025 | 292,104 |
| TOTAL ASSETS | \$ 22,019,305 | \$ 18,259,277 |
| LIABILITIES AND NET ASSETS | | |
| Current Liabilities: | | |
| Accounts Payable | \$ 438,014 | \$ 265,965 |
| Accrued Expense | 928 | 0 |
| Unearned Revenue | 11,340 | 0 |
| Obligations under Annuity Contracts - Current Portion | 69,992 | 67,249 |
| Total Current Liabilities | 520,273 | 333,214 |
| Obligations under Annuity Contracts - Deferred Portion | 327,181 | 252,842 |
| Total Liabilities | 847,454 | 586,056 |
| Net Assets: | | |
| Unrestricted | (47,808) | 71,872 |
| Temporarily Restricted | 6,072,536 | 2,923,927 |
| Permanently Restricted | 15,147,123 | 14,677,422 |
| Total Net Assets | 21,171,851 | 17,673,221 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 22,019,305 | \$ 18,259,277 |

STATEMENT OF ACTIVITIES**SUPPORT AND REVENUE**

| | | |
|--|---------------------|---------------------|
| Support: | | |
| Contributions | \$ 3,164,602 | \$ 2,845,751 |
| In-Kind Contributions | 120,865 | 359,970 |
| Other Income | 228,015 | 221,393 |
| Total Support | 3,513,481 | 3,427,114 |
| Revenue: | | |
| Interest and Dividends | 443,053 | 455,384 |
| Net Unrealized and Realized/Gain (Loss) on Investments | 1,940,862 | (588,127) |
| Total Revenue | 2,383,915 | (132,743) |
| TOTAL SUPPORT AND REVENUE | \$ 5,897,396 | \$ 3,294,371 |
| EXPENSES | | |
| Program Services | \$ 1,730,701 | \$ 1,981,086 |
| Support Services | 429,065 | 556,137 |
| TOTAL EXPENSES | 2,159,766 | 2,537,223 |
| Net Change in Assets | 3,737,630 | 757,148 |
| Net Assets - Beginning of Year | \$ 17,434,221 | \$ 16,916,073 |
| Net Assets - End of Year | \$ 21,171,851 | \$ 17,673,221 |

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 a publicly supported, state funded institution, 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 No. 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.

During FY 2005 the University adopted GASB Statement No. 39, "Determining Whether Certain Organizations Are Component Units". This statement provides criteria for determining whether organizations for which a government is not financially accountable, should be reported as component units. Because of the significance of the relationship between the University and the University of North Alabama Foundation, the University has determined the Foundation to be a component unit under GASB 39, and therefore has included the UNA Foundation statements in this report. Since the UNA Foundation reporting format is governed by the Financial Accounting Standards Board (FASB), rather than GASB as required for the University, the statements are presented separately to allow for formatting differences.

The UNA Foundation is governed by its own board of directors, is exempt for federal income taxes pursuant to Section 501 (c)(3) of the Internal Revenue Code, and is a qualified charitable organization established to solicit individual and corporate donations for the direct benefit of the University. Contributions to the University are primarily received through the UNA Foundation, and are deductible by donors as provided under Section 170(b) (1)(A)(iv) of the Internal Revenue Code.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation University of North Alabama

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.

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 non-operating 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. Non-operating 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.

C. Assets, Liabilities, and Net Assets

University of North Alabama

Cash and Cash Equivalents

The University has defined cash to include currency on hand and demand deposits with financial institutions. Cash also includes deposits in other kinds of accounts or cash management pools that have the general characteristics of demand deposit accounts in that the University may deposit additional cash at any time and also effectively may withdraw cash at any time without prior notice or penalty.

Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

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

Investments

Investments are reported at fair value based on quoted market prices.

Receivables

Accounts receivable relate to amounts due from federal grants, state appropriations, third party tuition, auxiliary enterprise sales, such as food service, bookstore and residence halls. Notes receivable relate to amounts due from students for tuition and fee billings. An allowance for doubtful accounts has been established.

Inventories

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

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 functional expense categories. 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 completed. 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:

| Asset | Depreciation Method | Useful Lives |
|-----------------------------------|----------------------------|---------------------|
| Buildings and Improvements | Straight Line | 50 Years |
| Improvements Other Than Buildings | Straight Line | 25 Years |
| Equipment | Straight Line | 5 Years |
| Software | Straight Line | 10 Years |
| Library Materials | Composite | 10 Years |

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds.

Compensated Absences

The Board of Trustees determines annual and sick leave policies for the University's employees. 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 of the University do not earn annual leave. Payment is not made to employees for unused sick leave at termination or retirement.

Deferred Tuition and Fee Revenue

Tuition and fee revenues received but related to the period after September 30, 2012 have been deferred.

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

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.

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.

D. Significant Accounting Policies

University of North Alabama Foundation

In most cases the Foundation follows the accounting policies of the University with the following additional policies.

Basis of Accounting and Presentation

The Foundation's financial statements have been prepared on the accrual basis of accounting. The Foundation's net assets are segregated into three groups as follows:

- **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed restrictions. Items included in this net asset category include receipt of unrestricted gifts and earnings on unrestricted endowments, and idle funds.
- **Temporarily Restricted Net Assets** – Net assets subject to donor imposed restrictions that may or will be met by actions of the Foundation or the passage of time. Items included in this net asset category include restricted gifts and earnings on endowment funds expendable for purposes stipulated by the donor. These amounts are reclassified to unrestricted net assets when such restrictions, primarily purpose restrictions, are met or have expired.
- **Permanently Restricted Net Assets** – Net assets subject to donor-imposed restrictions to be maintained permanently by the Foundation. Items included in this net asset category include gifts wherein donors stipulate that the corpus be held in perpetuity (primarily gifts for endowment) and only the income be made available for expenditure.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted funds held in demand deposit accounts. Cash restricted or designated for investment is included in investments.

Foundation Investments

Investments consist primarily of stocks, bonds and mutual funds. Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the statement of financial position, with all net realized and unrealized gains (losses) reflected in the statement of activities.

Contributions

Contribution revenue is recorded at the fair value of the asset or service received. Unconditional promises to give cash and other assets are recorded at the date the promise is received at its net realizable value. The contributions are recorded as unrestricted revenue in the period the asset is received or the unconditional promise is received if there are no donor stipulations that limit the use of the asset. The contributions are recorded as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, either when a stipulated time restriction ends or purpose restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

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

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 and Foundation'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 and Foundation's investment policies 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" shocks. "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 and Foundation's custodial risk is limited. All investments are in the name of the University or Foundation. Securities held by a third party are either collateralized or part of the SAFE program previously mentioned in the Deposits section.

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 and Foundation's investment policies reduce risk of this type of loss. The policies require 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 or Foundation 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 and Foundation's investment policies 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 policies of the University and the Foundation limit global stocks to a target of 6% of total investments thereby guarding against foreign currency risk.

The following tables provide information as of September 30, 2012 concerning the fair value of investments, interest rate risk, and foreign currency risk for University investments.

| Type of Investment | University of North Alabama Investment Maturities at Fair Value (in Years) | | | | Total Fair Value |
|------------------------------|---|-------------------|-------------------|------------------|------------------------|
| | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | |
| Debt Securities: | | | | | |
| U.S. Agency Securities | \$ 9,050 | \$ 513,639 | \$ 91,794 | \$ 10,170 | \$ 624,653 |
| Repurchase Agreements | 600,739 | | | | 600,739 |
| Corporate Bonds | | 117,501 | 49,018 | | 166,519 |
| International Bonds | 6,662 | | | | 6,662 |
| Total Debt Securities | \$ 616,451 | \$ 631,140 | \$ 140,812 | \$ 10,170 | \$ 1,398,573 |
| Domestic Stocks | | | | | 33,605 |
| Certificates of Deposit | | | | | 2,000,000 |
| Money Market Accounts | | | | | 31,342,730 |
| Total Investments | | | | | \$ 34,774,908 |

| Type of Investment | University of North Alabama Foundation Investment Maturities at Fair Value (in Years) | | | | Total Fair Value |
|--|--|---------------------|-------------------|------------------|------------------------|
| | Less Than 1 | 1 - 5 | 6 - 10 | More Than 10 | |
| Debt Securities: | | | | | |
| U.S. Agency Securities | \$ 60,333 | \$ 1,326,410 | \$ 199,807 | \$ 84,659 | \$ 1,671,209 |
| Corporate Bonds | | 233,916 | 96,869 | | 330,785 |
| Total Debt Securities | \$ 60,333 | \$ 1,560,326 | \$ 296,676 | \$ 84,659 | \$ 2,001,994 |
| Domestic Stocks and Pref Stocks | | | | | 557,392 |
| International Stocks | | | | | 909,275 |
| Mutual Funds-Bond and Equity Mix, or Equity only | | | | | 5,077,144 |
| International Mutual Funds-Bond and Equity Mix, or Equity only | | | | | 2,299,259 |
| Investments Other Than Debt and Equity Securities: | | | | | |
| Real Estate | | | | | 2,318,659 |
| Other | | | | | 3,876,448 |
| Total Investments Per Interest Rate Risk Note | | | | | \$ 17,040,171 |
| Reconciliation to Balance Sheet | | | | | |
| Money Market Accounts-Savings | | | | | 489,724 |
| Investments as Reported on Balance Sheet | | | | | \$ 17,529,895 |

The following tables provide information concerning credit risk for the University's investments as of September 30, 2012.

University of North Alabama
Credit Quality Ratings of Fixed Maturities

| <u>Moody's Ratings*</u> | <u>Fair Value</u> |
|--------------------------------|--------------------------|
| AAA | \$ 612,987 |
| A1 | 70,619 |
| A2 | 47,343 |
| A3 | 48,557 |
| Not Rated | 1,776,335 |
| Total | \$ 2,555,841 |

University of North Alabama Foundation
Credit Quality Ratings of Fixed Maturities

| <u>Moody's Ratings*</u> | <u>Fair Value</u> |
|--------------------------------|--------------------------|
| AAA | \$ 1,571,998 |
| A1 | 140,110 |
| A2 | 95,773 |
| A3 | 94,902 |
| Not Rated | 99,211 |
| Total | \$ 2,001,994 |

**Moody's ratings are used when available. Standard & Poor's ratings are used when Moody's is not available, denoted above by (S&P).*

Note 3 Receivables

Receivables for the University are summarized as follows:

| | 9/30/12 | 9/30/11 |
|----------------------------------|---------------------|---------------------|
| Accounts Receivable: | | |
| Federal and State Agencies | \$ 1,307,975 | \$ 1,227,910 |
| Third-Party Contracts | 1,540,544 | 1,410,755 |
| Students | 2,649,756 | 2,520,573 |
| Other | 774,364 | 196,119 |
| Total Accounts Receivable | <u>\$ 6,272,639</u> | <u>\$ 5,355,357</u> |
| Student Notes Receivable: | | |
| Current | \$ 199,514 | \$ 276,335 |
| Noncurrent | 1,090,578 | 1,464,254 |
| Total Student Notes Receivable | <u>\$ 1,290,092</u> | <u>\$ 1,740,589</u> |

Note 4 Capital Assets

Capital asset activity for the year ended September 30, 2012 was as follows:

| | Schedule of Changes in Fixed Assets | | | |
|------------------------------|--|---------------------|------------------|----------------------------|
| | Balance 9/30/11 | Additions | Transfers | Balance 9/30/12 |
| Land | \$ 3,760,729 | | | \$ 3,760,729 |
| Buildings | 86,910,615 | | \$ 4,078,199 | 90,988,814 |
| Improvements and Betterments | 12,657,966 | | | 12,657,966 |
| Equipment | 10,489,911 | \$ 223,536 | | 10,713,447 |
| Banner Software | 7,615,055 | | | 7,615,055 |
| Library Books | 22,084,313 | | | 22,084,313 |
| Construction in Progress | 4,296,082 | 3,585,287 | (4,078,199) | 3,803,170 |
| Total | \$ 147,814,671 | \$ 3,808,823 | \$ — | \$ 151,623,494 |

| | Schedule of Depreciation | | |
|------------------------------|---|-------------------------------------|---|
| | Accumulated Depreciation 9/30/11 | Depreciation FYE 9/30/12 | Accumulated Depreciation 9/30/12 |
| Buildings | \$ 39,078,452 | \$ 2,031,135 | \$ 41,109,587 |
| Improvements and Betterments | 5,674,138 | 450,031 | 6,124,169 |
| Equipment | 9,107,176 | 465,030 | 9,572,206 |
| Banner Software | 3,046,022 | 761,506 | 3,807,528 |
| Library Books | 22,084,313 | | 22,084,313 |
| Total | \$ 78,990,101 | \$ 3,707,702 | \$ 82,697,803 |
| Capital Assets | | | |
| Net of Depreciation | \$ 68,824,570 | \$ 101,121 | \$ 68,925,691 |

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 is provided to plan members.

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, were required by statute to contribute 7.25 percent of their salary to the Teachers' Retirement System as of October 1, 2011. As of January 1, 2001, full-time law enforcement officers (as defined by Act No. 2000-669, Acts of Alabama, Page 1335) were required by statute to contribute an additional one percent of their salary to the Teachers' Retirement System. The rate for these employees as of October 1, 2011 was 8.25 percent. 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 | 2012 | 2011 | 2010 |
|--|---------------------|---------------------|---------------------|
| Total percentage of Covered Payroll | 17.25% | 17.51% | 17.51% |
| Contributions: | | | |
| Percentage Contributed by the University | 10.00% | 12.51% | 12.51% |
| Percentage Contributed by the Employees | 7.25% | 5.00% | 5.00% |
| Additional Percentage Contributed by | | | |
| Law Enforcement Employees | 1.00% | 1.00% | 1.00% |
| Contributed by the University | \$ 3,802,276 | \$ 4,725,007 | \$ 4,634,799 |
| Contributed by Employees | 2,762,229 | 1,894,342 | 1,857,886 |
| Total Contributed | \$ 6,564,505 | \$ 6,619,349 | \$ 6,492,685 |

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 2012 |
|---|--------------------------|
| | Effective |
| | 10/1/11 - 9/30/12 |
| Individual Coverage – Non-Medicare Eligible | \$ 151.00 |
| Individual Coverage – Medicare Eligible | 10.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) | 391.00 |
| Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible | 250.00 |
| Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) | 250.00 |
| Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible | 109.00 |
| Surviving Spouse – Non-Medicare Eligible | 658.00 |
| Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible | 847.00 |
| Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible | 816.00 |
| Surviving Spouse – Medicare Eligible | 328.00 |
| Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible | 517.00 |
| Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible | 486.00 |

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 University retiree participating in the plan. The following shows the required contributions in dollars and the percentage of that amount contributed for retirees:

| <u>Fiscal Year Ended 9/30</u> | <u>Total Amount Paid Attributable</u> | <u>Percentage of Required Amount Contributed</u> |
|-------------------------------|---------------------------------------|--|
| 2012 | \$ 1,306,840 | 100% |
| 2011 | 1,432,200 | 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

Subsequent to September 30, 2012 the University of North Alabama continued with the planning and construction of the new Science and Engineering Technology Facility, and the Academic Centre and Student Commons Building.

Accounts Payable

Note 8

Accounts payable and accrued liabilities represent amounts due at September 30, 2012 for goods and services received prior to the end of the fiscal year, as follows:

| Accounts Payable and Accrued Liabilities: | <u>9/30/12</u> | <u>9/30/11</u> |
|---|----------------------------|----------------------------|
| Salaries and Wages | \$ 1,476,476 | \$ 451,934 |
| Benefits | 104,536 | 155,200 |
| Interest Payable | 407,548 | 527,217 |
| Supplies and Utilities | 1,907,382 | 1,776,952 |
| Other | 621,101 | 306,446 |
| Total Accounts Payable and Accrued Liabilities | <u>\$ 4,517,043</u> | <u>\$ 3,217,749</u> |

Note 9 Long-Term Liabilities

On November 30, 2010 the University issued 2010A and B General Fee Revenue Bonds in the amount of \$ 35,765,000, to refund the 1999 Series Bonds and to issue new debt in the amount of \$25,915,000 in Build America Bonds. The new debt was issued to finance the construction of the Science and Engineering Technology Facility. On August 23, 2012, the University issued 2012A General Fee Revenue Bonds in the amount of \$11,530,000 to refund the 2003 Series Bonds and to issue new debt in the amount of \$1.4 million. The new debt was issued to supplement the financing for the construction of the Academic Centre and Student Commons Building

Long-term liabilities activity for the year ended September 30, 2011 was as follows:

| | Balance October 1, 2011 | Additions | Deletions | Balance September 30, 2012 | Current Portion | NonCurrent Portion |
|--|----------------------------|---------------|---------------|-------------------------------|--------------------|-----------------------|
| Bonds Payable | \$ 45,455,000 | \$ 11,530,000 | \$ 10,290,000 | \$ 46,695,000 | \$ 1,035,000 | \$ 45,660,000 |
| Long-term Portion of Compensated Absences | | | | | | \$ 1,187,627 |
| Total Long-term Debt and Other Obligations | | | | | | <u>\$ 46,847,627</u> |

Debt obligations of the University consist of the following:

| Bonds Payable | Balance September 30, 2012 | Balance September 30, 2011 |
|---|-------------------------------|-------------------------------|
| 2003 Student Housing Revenue Bonds with an interest rate of 1.35% to 5.00% payable in installments to maturity in 2035, collateralized by net student housing revenues. | | \$ 10,545,000 |
| 2010A General Fee Revenue Bonds with an interest rate of 2.00% to 4.00% payable in installments to maturity in 2024, collateralized by general student fees. | \$ 9,250,000 | 9,850,000 |
| 2010B General Fee Revenue Bonds with an interest rate of 5.75% to 6.55% payable in installments to maturity in 2041, collateralized by general student fees | 25,915,000 | 25,915,000 |
| 2012A General Fee Revenue Bonds with an interest rate of 2.0% to 5.0% payable in installments to maturity in 2034, collateralized by general student fees. | 11,530,000 | |
| Total Debt Obligations | <u>\$ 46,695,000</u> | <u>\$ 46,310,000</u> |

Revenue from student tuition and fees sufficient to pay annual debt service is pledged to secure the 2010A, 2010B and 2012A bonds. Principal and interest maturity requirements on bond debt are as follows:

Debt Service Requirements as of 9/30/12

| Year | Principal | Interest | Total |
|--|----------------------|----------------------|----------------------|
| FY 2013 | 1,035,000 | 1,653,701 | 2,688,701 |
| FY 2014 | 955,000 | 1,736,321 | 2,691,321 |
| FY 2015 | 980,000 | 1,713,596 | 2,693,596 |
| FY 2016 | 1,000,000 | 1,690,321 | 2,690,321 |
| FY 2017 | 1,025,000 | 1,664,721 | 2,689,721 |
| FY 2018-2022 | 5,660,000 | 7,785,235 | 13,445,235 |
| FY 2023-2027 | 6,965,000 | 6,587,401 | 13,552,401 |
| FY 2028-2032 | 8,545,000 | 5,161,076 | 13,706,076 |
| FY 2033-2037 | 10,440,000 | 3,273,520 | 13,713,520 |
| FY 2038-2041 | 10,090,000 | 881,941 | 10,971,941 |
| Total Debt Service Requirements | \$ 46,695,000 | \$ 32,147,833 | \$ 78,842,833 |

A. Bond Issuance Costs and Premiums

The University prepaid bond issuance costs and bond discounts in connection with the issuance of its 2010 and 2012 Revenue Bonds. The issuance costs and bond discounts are being amortized using the straight line method over the life of the bonds.

| | Issuance Costs | Discounts |
|-------------------------------|----------------|------------|
| Balance 9/30/11 | \$ 529,751 | \$ 779,850 |
| Net Additions (Deductions) | (26,175) | 110,782 |
| Current Year Amount Amortized | (15,088) | (23,329) |
| Balance 9/30/12 | \$ 488,488 | \$ 867,303 |

Note 10 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 University purchases commercial insurance for its automobile coverage, intramural catastrophic, athletic medical and catastrophic, and professional legal liability coverage.

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.

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 11 Endowments

Endowments are held in both the University and the Foundation. The policy described below for University endowment funds is also applicable to Foundation endowment funds.

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 market value of endowment investments at the end of the previous calendar year 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 12 Related Parties

University of North Alabama Foundation

The University of North Alabama Foundation was incorporated as a non-profit corporation to promote the advancement of the University of North Alabama, to further scientific, literary, and educational purposes, and to encourage and support students and faculty. This report contains financial statements of the University of North Alabama Foundation.

The majority of funds the Foundation raises are restricted for specific schools, colleges or programs of the University. These may be transferred to the University for its use, expended for the benefit of University schools, colleges or programs, or in the case of endowments, invested according to donor restriction and the earnings transferred to or expended for the University's benefit.

The President of the University serves as an ex officio member and president of the Foundation's Board of Directors. The University's chief academic, financial and advancement officers, as well as the vice-president for Student Affairs are also ex officio members of the Board of Directors. The University is the primary recipient of Foundation expenditures.

University of North Alabama Alumni Association

The University of North Alabama Alumni Association was also created to promote the advancement of the University of North Alabama, to further scientific, literary, and educational purposes, and to encourage and support students and faculty. This report contains financial activity of the University of North Alabama Alumni Association, as a component of the University of North Alabama Foundation financial statements.

Note 13 Subsequent Events

Construction will continue on the Academic Centre and Student Commons and issuance of a formal request for proposal to construct the Science and Engineering Technology Facility is anticipated in FY 2013.



THE BOARD OF TRUSTEES

Ex Officio
Honorable Robert Bentley
Governor, State of Alabama

Thomas R. Rice
*Superintendent,
State Department of Education*

Will Riley
*President, Student Government Association
(non-voting)*

GUBERNATORIAL APPOINTMENTS

Martin R. Abrams

Joel R. Anderson

Richard H. Cater

Lisa G. Ceci

John B. Cole

Rodney L. Howard

Libby Watts Jordan

Steven F. Pierce

Harvey F. Robbins



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ADMINISTRATION

William G. Cale, Jr.
*President,
University of North Alabama*

John G. Thornell
*Vice President for Academic Affairs and
Provost*

Alan Medders
*Vice President for University Advancement
and Exec. Director of the UNA Foundation
(until June 2012)*

Daniel L. Hendricks
*Vice President for University Advancement
and Exec. Director of the UNA Foundation
(effective October 2012)*

W. Steven Smith
*Vice President for Business and
Financial Affairs*

David P. Shields
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Vagn K. Hansen
Dean, College of Arts and Sciences

Kerry P. Gatlin
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Donna P. Lefort
Dean, College of Education and Human Sciences

Birdie I. Bailey
*Dean, College of Nursing and
Allied Health*

Donna Ford Tipps
Controller

*The Financial Report was prepared by
the Office of Business and Financial Affairs.*

