

FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University of North Alabama Foundation

We have audited the accompanying financial statements of University of North Alabama Foundation (a nonprofit organization) which comprise the statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of North Alabama Foundation as of September 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the University of North Alabama Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 24, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Patterson, Prince and Associates, P.C.

Florence, Alabama
February 4, 2016

STATEMENTS OF FINANCIAL POSITION

University of North Alabama Foundation

September 30, 2015 and 2014

	September 30	
	<u>2015</u>	<u>2014</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 4,725,135	\$ 5,268,310
Accounts Receivable	1,900	2,550
Pledges Receivable	2,043,064	842,411
Inventories	12,249	12,249
Interest Receivable	<u>8,354</u>	<u>6,582</u>
<u>Total Current Assets</u>	\$ 6,790,702	\$ 6,132,102
<u>Investments:</u>		
Cash Restricted for Long Term Investment	\$ 406,042	\$ 306,042
Investments	<u>23,863,170</u>	<u>21,172,397</u>
<u>Total Investments</u>	\$ 24,269,212	\$ 21,478,439
<u>Fixed Assets:</u>		
Donated Artifacts and Collectibles	\$ 243,950	\$ 243,950
Furniture and Equipment	<u>24,364</u>	<u>24,364</u>
	\$ 268,314	\$ 268,314
Less: Accumulated Depreciation	<u>24,364</u>	<u>24,364</u>
<u>Total Fixed Assets</u>	\$ 243,950	\$ 243,950
<u>Other Assets</u>		
Pledges Receivable (Net) Non-Current	<u>\$ 1,484,422</u>	<u>\$ 644,769</u>
<u>Total Other Assets</u>	\$ 1,484,422	\$ 644,769
<u>TOTAL ASSETS</u>	<u>\$ 32,788,286</u>	<u>\$ 28,499,260</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF FINANCIAL POSITION

University of North Alabama Foundation

September 30, 2015 and 2014

	September 30	
	<u>2015</u>	<u>2014</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	\$ 649,873	\$ 444,521
Obligations under Annuity Contracts - Current Portion	<u>69,413</u>	<u>70,459</u>
<u>Total Current Liabilities</u>	\$ 719,286	\$ 514,980
<u>Long-Term Liabilities:</u>		
Obligations under Annuity Contracts - Deferred Portion	<u>\$ 295,014</u>	<u>\$ 288,131</u>
<u>Total Long-Term Liabilities</u>	<u>\$ 295,014</u>	<u>\$ 288,131</u>
<u>Total Liabilities</u>	\$ 1,014,300	\$ 803,111
<u>Net Assets:</u>		
Unrestricted	\$ 591,127	\$ 733,116
Temporarily Restricted	9,171,830	8,605,954
Permanently Restricted	<u>22,011,029</u>	<u>18,357,079</u>
<u>Total Net Assets</u>	<u>\$ 31,773,986</u>	<u>\$ 27,696,149</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 32,788,286</u>	<u>\$ 28,499,260</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF ACTIVITIES

University of North Alabama Foundation

For the Year Ended September 30, 2015 with Summarized Financial Information for the Year Ended September 30, 2014

	2015				2014
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
<u>SUPPORT AND REVENUE:</u>					
<u>Support:</u>					
Contributions	\$ 354,294	\$ 3,991,055	\$ 3,758,486	\$ 8,103,835	\$ 3,588,027
In-Kind Donations	803,578	39,789	-	843,367	991,460
Other Income	149,135	525,050	-	674,185	410,668
Change in Present Value of Unconditional Promise to Give			(108,497)	(108,497)	
Transfers	(96,786)	92,825	3,961	-	-
Net Assets Released from Restriction	3,376,545	(3,376,545)	-	-	-
<u>Total Support</u>	\$ 4,586,766	\$ 1,272,174	\$ 3,653,950	\$ 9,512,890	\$ 4,990,155
<u>Revenue:</u>					
Interest and Dividend Income	\$ 3,767	\$ 241,435	\$ -	\$ 245,202	\$ 429,345
Net Realized Gain (Loss) on Investments		281,528		281,528	3,646,633
Net Unrealized Gain (Loss) on Investments	-	(1,229,261)	-	(1,229,261)	(2,417,646)
<u>Total Revenue</u>	\$ 3,767	\$ (706,298)	\$ -	\$ (702,531)	\$ 1,658,332
<u>TOTAL SUPPORT AND REVENUE</u>	\$ 4,590,533	\$ 565,876	\$ 3,653,950	\$ 8,810,359	\$ 6,648,487
<u>EXPENSES:</u>					
Program Services	\$ 3,294,656	\$ -	\$ -	\$ 3,294,656	\$ 1,653,470
Support Services	1,437,866	-	-	1,437,866	1,346,023
<u>TOTAL EXPENSES</u>	\$ 4,732,522	\$ -	\$ -	\$ 4,732,522	\$ 2,999,493
 Net Change in Net Assets	\$ (141,989)	\$ 565,876	\$ 3,653,950	\$ 4,077,837	\$ 3,648,994
<u>Net Assets at Beginning of Year</u>	733,116	8,605,954	18,357,079	27,696,149	24,047,155
<u>NET ASSETS AT END OF YEAR</u>	\$ 591,127	\$ 9,171,830	\$ 22,011,029	\$ 31,773,986	\$ 27,696,149

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF FUNCTIONAL EXPENSES

Schedule of Program Services

University of North Alabama Foundation

For the Years Ended September 30, 2015 and 2014

	2015 Total Program Services	2014 Total Program Services
Scholarships Awarded	\$ 445,736	\$ 405,608
Eminent Scholars Support	150,591	162,990
Academic Program Support	276,514	165,257
Alumni Program Support	76,652	57,278
Annuities	75,822	55,171
Athletic Department Support	674,356	647,786
Student and Faculty Support	61,244	28,464
Other Program Support	<u>1,533,741</u>	<u>130,916</u>
<u>TOTAL PROGRAM SERVICES</u>	<u>\$ 3,294,656</u>	<u>\$ 1,653,470</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF FUNCTIONAL EXPENSES

Schedule of Support Services

University of North Alabama Foundation

For the Year Ended September 30, 2015 with Summarized Financial Information for the Year Ended September 30, 2014

	Management & General	Fund Raising	2015 Total Support Services	2014 Total Support Services
Contract Services - Other	\$ 53,630	\$ 43,667	\$ 97,297	\$ 82,066
Supplies	53,316	28,098	81,414	50,261
Postage	5,712	20,277	25,989	26,093
Legal and Accounting	17,725	-	17,725	13,950
Telephone	236	1,510	1,746	1,403
Equipment Repair	370	-	370	-
Printing and Copying	29,403	4,443	33,846	28,202
Membership Dues	10,643	825	11,468	8,800
Advertising	24,581	1,580	26,161	-
Donations and Sponsorships	16,025	12,175	28,200	16,590
NAA Events	2,480	47,350	49,830	33,545
Software and Maintenance	39,143	-	39,143	47,016
Insurance	6,274	624	6,898	6,748
Fees	1,306	4,112	5,418	10,468
Travel, Lodging, and Meals	19,976	37,509	57,485	33,478
Staff Development	3,149	4,007	7,156	11,807
Donor Appreciation	8,045	4,796	12,841	3,380
Gifts and Flowers	6,962	1,348	8,310	21,745
Awards	14,631	4,536	19,167	10,352
Banquets and Meals	29,297	30,693	59,990	31,151
In-Kind Expense	477,645	335,467	813,112	866,164
General Program Support	34,300	-	34,300	30,000
Bad Debt Expense	-	-	-	10,417
Miscellaneous Expenses	-	-	-	2,387
<u>TOTAL SUPPORT SERVICES</u>	<u>\$ 854,849</u>	<u>\$ 583,017</u>	<u>\$ 1,437,866</u>	<u>\$ 1,346,023</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF CASH FLOWS

University of North Alabama Foundation

For the Years Ended September 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 4,077,837	\$ 3,648,994
Adjustments to Reconcile Change in Net Assets to Net Cash provided by (used for) Operating Activities:		
Realized and Unrealized Gain on Investments	947,733	(1,228,897)
Change in Amortization of Discount on Pledges Receivable	28,648	(10,759)
Change in Accounts Receivable	650	1,050
Change in Pledges Receivable	(2,068,954)	1,513,155
Change in Interest Receivable	(1,772)	13,936
Change in Accounts Payable	205,353	(544,700)
Change in Unearned Revenue	-	(11,340)
Change in Obligations Under Annuity Contracts	5,836	(20,222)
Equipment Transferred to the University	-	36,468
Contributions Restricted for Long-Term Investment	<u>(3,758,486)</u>	<u>(952,811)</u>
Net Cash Provided by (Used for) Operating Activities	\$ (563,155)	\$ 2,444,874
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Net of Purchase and Sale of Investments	\$ <u>(3,738,506)</u>	\$ <u>(1,232,158)</u>
Net Cash Used for Investing Activities	\$ (3,738,506)	\$ (1,232,158)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Receipts of Contributions Restricted for Long-Term Investment	\$ <u>3,758,486</u>	\$ <u>952,811</u>
Net Cash Provided by Financing Activities	\$ <u>3,758,486</u>	\$ <u>952,811</u>
Increase (Decrease) in Cash and Cash Equivalents	\$ (543,175)	\$ 2,165,527
Cash and Cash Equivalents at Beginning of Year	<u>5,268,310</u>	<u>3,102,783</u>
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 4,725,135</u>	<u>\$ 5,268,310</u>

The Accompanying Notes are an Integral Part of these Financial Statements

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

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 ACCOUNTING

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

BASIS OF PRESENTATION

Net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of such assets permit the foundation to use all or part of the income earned on the asset based on the donor-imposed restrictions.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, except for investments purchased with endowment assets, which are classified as long-term investments. All cash is secured by the bank through a repurchase agreement or FDIC Insurance.

ACCOUNTS RECEIVABLE

Accounts receivable include student accounts receivable and is non-interest bearing. The Foundation extends unsecured credit to students in connection with their studies. Student accounts receivable represent amounts due for fees and books that are generally payable by the end of the school term by currently enrolled and former students. Accounts receivable are stated at the amount management expects to collect from outstanding balances.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES

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

FIXED ASSETS

Furniture and Equipment is recorded at cost to the Foundation or, if donated, at estimated fair value at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. The Foundation follows the practice of capitalizing, at cost all expenditures for furniture and equipment in excess of \$5,000. Depreciation is computed using the straight-line method over the estimated useful lives of the assets acquired. Donated artifacts and collectibles are recorded at cost if purchased and at fair value at the date of accession if donated. The Foundation does not recognize depreciation on artifacts and collectibles. In addition, the Foundation utilizes certain facilities owned by the University. Such facilities are not recorded on the books of the Foundation.

COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2014, from which the summarized information was derived.

CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivables is provided based upon management's judgment.

INCOME TAXES

The Foundation is a nonprofit organization that is exempt from federal income tax under Internal Revenue Code Section 501(c)(3).

NOTE 2: INVESTMENTS

The Foundation's endowment consists of approximately 244 individual funds established for the purposes discussed in Note 7. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 2: INVESTMENTS (Continued)

The Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

The Foundation has received four donations to establish permanent endowment funds to provide scholarships for University of North Alabama students and the terms of the donations require these funds to be segregated from other Foundation funds.

INVESTMENT RETURN OBJECTIVE, RISK PARAMETERS AND STRATEGIES

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 5%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Performance goals have been established to provide a basis upon which to judge the effectiveness of the investment objective and those responsible for implementing investment decisions on a day-to-day basis. Investment managers will be judged over a cycle of three to five years.

SPENDING POLICY

It is the policy of the Foundation to annually distribute, at least 3-5% of the average market value of the Foundation (at the beginning of a fiscal year) over a rolling three-year period. It shall be the responsibility of the Foundation Executive Committee, Investment Committee and Investment Manager to periodically review the spending policy against actual returns in order to make adjustments necessary.

Income available for spending is determined by a total return system. The amount to be spent in the coming year is calculated and is reviewed and approved by the Foundation Executive Committee and Investment Committee.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 2: INVESTMENTS (Continued)

The income that may be spent, as determined in this paragraph, may be drawn from both ordinary income earned (i.e. dividends, interest, etc.) and appreciation, both earned and unearned. All income and appreciation not needed to meet spending needs is reinvested in the investment pool.

FUNDS WITH DEFICIENCIES

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with Generally Accepted Accounting Principles, deficiencies of this nature that are reported in unrestricted net assets were \$265,020 as of September 30, 2015. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors.

Changes in endowment net assets as of September 30, 2015, are as follows:

	<u>Assets</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$22,083,265	\$ (10,325)	\$ 3,736,511	\$18,357,079
Contributions, net	3,649,989	-	-	3,649,989
Investment income	481,792	-	481,792	-
Net appreciation (depreciation)	(1,229,261)	-	(1,229,261)	-
Excess Loss to Unrestricted	-	(254,695)	254,695	-
Amounts appropriated for expenditure	595,901	-	595,901	-
Transfer	(216,017)	-	(219,978)	3,961
Endowment net assets, end of year	<u>\$24,173,867</u>	<u>\$ (265,020)</u>	<u>\$ 2,427,858</u>	<u>\$22,011,029</u>

Investment management fees and investment income activity fees for the year ending September 30, 2015, are as follows:

Management fees	\$ 221,048
Investment activity fees	<u>7,324</u>
<u>TOTAL FEES</u>	<u>\$ 228,372</u>

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 3: PROMISES TO GIVE

Unconditional promises to give are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. Unconditional promises to give at September 30, 2015, are as follows:

Promises to give expected to be collected in:	
Less than one year	\$ 2,043,064
One to five years	<u>1,620,097</u>
	\$ 3,663,161
Less allowance for uncollectible promises to give	(77,722)
Less discount at 1.2% on promises to give	<u>(57,953)</u>
<u>NET UNCONDITIONAL PROMISES TO GIVE</u>	<u>\$ 3,527,486</u>

NOTE 4: CONDITIONAL PROMISES TO GIVE

During 2015, the Foundation received promises to give totaling \$262,415 that contained donor conditions (primarily athletic sponsorship requirements). Since these pledges represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met.

NOTE 5: FIXED ASSETS

Fixed Assets consisted of the following at September 30:

Donated Artifacts and Collectibles	\$ 243,950
Furniture and Equipment	<u>24,364</u>
	\$ 268,294
Less Accumulated Depreciation	<u>24,364</u>
<u>TOTAL FIXED ASSETS</u>	<u>\$ 243,950</u>

Depreciation expense for year ending September 30, 2015 was \$0.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 6: FAIR VALUE MEASUREMENTS

The carrying amounts in the statements of financial position for accounts payable approximate fair value due to their short maturities. The carrying amounts for unconditional promise to give approximate fair value as amounts expected to be collected in future years have been discounted to present value and the receivable has been reduced by an allowance for doubtful accounts (Note 3). The carrying amounts of other financial instruments approximate fair value.

ASC 820, *Fair Value Measurements and Disclosures*, provides a common definition of fair value and establishes a framework for measuring fair value. ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. These inputs are summarized in three broad levels for financial statement purposes.

Level 1: Quoted prices for identical securities in active markets.

Level 2: Other significant observable inputs other than Level 1 prices, such as quoted prices for similar securities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect the Foundation's investment managers' own assumptions used to determine the fair value of investments.

Level 2 investment securities include certain U.S. government and agency obligations and corporate bonds for which quoted prices are not available in active markets for identical instruments. Because quote prices in active markets for identical assets are not available, these prices are determined using observable market information such as quotes from less active markets and/or quoted prices of securities with similar characteristics. Level 2 investments may include fixed income funds. The fair value of these investments were estimated based on the net asset value ("NAV") at September 30, 2015, provided by the fund manager.

The Foundation used the net asset value (NAV) or capital balances of its interest in Level 3 investments as a practical expedient to determine the fair value of Level 3 investment funds. These funds do not have a readily determinable fair value and either have the attributes of an investment company or prepare their financial statements consistent with the measurement principles of an investment company. Because of the inherent uncertainty of valuations of Level 3 investments, their estimated values may differ significantly from the values that would have been used had a ready market for the Level 3 investments existed, and the difference could be material. Additional information about the major categories of Level 3 investments is presented below.

Valuations provided by the general partners and investment managers are evaluated by management through accounting and financial reporting processes to review and monitor existence and valuation assertions. Management has instituted processes in the area of initial due diligence, ongoing monitoring and financial reporting. Management also reviews interim financial information and reviews details of investment holdings to obtain an understanding of the underlying investments. Monitoring also includes obtaining and reviewing audited financial statements noting the type of opinion, basis of accounting, procedures pertaining to the valuation of alternative investments and comparison of audited valuation with the fund's valuation.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 6: FAIR VALUE MEASUREMENTS (continued)

The following table set forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of September 30, 2015.

	Assets at Fair Value as of September 30, 2015			
	Level 1	Level 2	Level 3	Total
Certificate of Deposit	\$ 406,042	\$ -	\$ -	\$ 406,042
Money Market	745,232	-	-	745,232
Limited Partnerships and LLCs				
US Equities	-	-	5,684,332	5,684,332
International Equities	-	-	2,309,482	2,309,482
GT Emerging Market	-	-	583,683	583,683
Palladian Partners VIII-A, LP	-	-	101,448	101,448
GTAA Offshore C/Hedge Strategies-Hedge Equities	-	-	6,889,753	6,889,753
Total Limited Partnerships and LLCs	\$ -	\$ -	\$ 15,568,698	\$ 15,568,698
Mutual Funds				
PIMCO Short Term-Fixed Income-Short Return	\$ 2,528,740	\$ -	\$ -	\$ 2,528,740
American Fund Washington Mutual	14,543	-	-	14,543
Vanguard Total Bond	1,671,838	-	-	1,671,838
1670 Bond Fund	-	1,732,240	-	1,732,240
First Eagle Global Fund	471,396	-	-	471,396
Eagle MPL Strategy Fund	700,731	-	-	700,731
Gotham Neutral Fund	293,629	-	-	293,629
Total Mutual Funds	\$ 5,680,877	\$ 1,732,240	\$ -	\$ 7,413,117
Complementary Strategies				
Other	\$ -	\$ -	\$ 136,123	\$ 136,123
Total Complementary Strategies	\$ -	\$ -	\$ 136,123	\$ 136,123
	<u>\$ 6,832,151</u>	<u>\$ 1,732,240</u>	<u>\$ 15,704,821</u>	<u>\$ 24,269,212</u>

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 6: FAIR VALUE MEASUREMENTS (continued)

The following table illustrates the activity of Level 3 assets from October 1, 2014 to September 30, 2015:

Fair Value October 1, 2014	\$ 9,957,422
Realized Gains (Losses)	56,983
Change in Unrealized Gains (Losses)	(348,796)
Purchases	7,462,275
Sales distributions	(1,423,063)
Fair Value September 30, 2015	<u>\$ 15,704,821</u>

The following table provides information related to the previously mentioned investments that are valued based on NAV:

	Fair Value	Unfunded Commitments at		
	September 30, 2015	September 30, 2015	Redemption Frequency	Redemption Notice Period
U.S. Equity (a)	\$ 5,684,332	\$ -	Quarterly	60 Days
International Equity (b)	2,309,482	-	Quarterly	60 Days
Emerging Markets Equity (c)	583,683	-	Annual	30 Days
Hedged Equity (d)	6,889,753	-	Annual	90 Days
Private Equity (e)	101,448	950,000	Annual	90 Days
Opportunistic (f)	136,123	131,950	Annual	90 Days
Total	<u>\$ 15,704,821</u>	<u>\$ 1,081,950</u>		

- a) **U.S. Equity** – This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- b) **International Equity** – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- c) **Emerging Markets** – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in emerging foreign countries. Emerging markets equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily consist of long-only investments and hedged equity investments (long and short).
- d) **Hedged Equity** – This category consists of funds of funds that make long and short position equity investments. The bulk of the investment is subject to semi-annual or annual redemption.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 6: FAIR VALUE MEASUREMENTS (continued)

- e) **Private Equity** – This category consists of partnerships that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.
- f) **Opportunistic** – This category may include any strategy that offers exceptional risk/reward opportunities. This category is designed to provide the Investment Committee with the flexibility to select investments for a relatively small part of an overall allocation, which may not fit into the other designed allocation categories.

NOTE 7: RESTRICTIONS ON NET ASSETS:

Net assets released from restrictions during year ending September 30, 2015, were comprised of the following:

Program Services	\$ 2,503,705
Instruction	427,105
Scholarships	<u>445,735</u>
<u>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</u>	<u>\$ 3,376,545</u>

Temporarily restricted net assets at September 30, 2015, are available for the following purposes:

Program Services	\$ 6,693,144
Instruction	1,532,546
Scholarships	<u>946,140</u>
<u>TOTAL TEMPORARILY RESTRICTED NET ASSETS</u>	<u>\$ 9,171,830</u>

Permanently restricted net assets of the following at September 30, 2015:

Program Services	\$ 210,394
Instruction	4,968,500
Scholarships	<u>16,832,135</u>
<u>TOTAL PERMANENTLY RESTRICTED NET ASSETS</u>	<u>\$22,011,029</u>

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 8: ANNUITY GIFTS AND OBLIGATIONS

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

Obligations under annuity contracts at September 30, 2015, are as follows:

Current Portion	\$ 69,413
Deferred Portion	<u>295,014</u>
<u>TOTAL ANNUITY OBLIGATIONS</u>	<u>\$ 364,427</u>

NOTE 9: FUNCTIONAL ALLOCATON OF EXPENSES

The costs of providing the Foundation's various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

NOTE 10: RELATED PARTY TRANSACTIONS

The University of North Alabama Foundation exists to assist the University. Due to the nature of this relationship, there are numerous transactions between the two entities and their representatives for program services, instruction, and scholarship purposes. At September 30, 2015, pledge receivables from the Alumni Association and University board members and directors were \$34,550 and \$40,949 respectively. The Foundation has payables to the University of \$413,955. The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was \$20,720 for the year ending September 30, 2015. The Foundation employees are paid by the University. The salaries and benefits and supplies for year ending September 30, 2015, were \$770,218.

The Foundation has an affiliation agreement with the University of North Alabama Sportsman's Club. The Foundation has a pledge receivable from the Sportsman's Club of \$130,000 at September 30, 2015. The Foundation owes \$126,331 to the Sportsman's Club at September 30, 2015.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2015

NOTE 11: SUBSEQUENT EVENTS:

The Foundation has evaluated subsequent events through February 4, 2016, the date which the financial statements were available to be issued.

NOTE 12: UNCERTAIN TAX POSITIONS

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being recognized upon ultimate settlement. There were no unrecognized tax benefits identified as liabilities for fiscal year 2015.

The Organization files forms 990 in the U.S. federal jurisdiction. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2011.