

Report on the

# **University of North Alabama**

**Florence, Alabama**

**October 1, 2003 through September 30, 2004**

**Filed: September 16, 2005**



## **Department of Examiners of Public Accounts**

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*Ronald L. Jones, Chief Examiner*



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Department of  
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Ronald L. Jones  
Chief Examiner

Honorable Ronald L. Jones  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-14, I submit this report on the University of North Alabama for the period October 1, 2003 through September 30, 2004.

**SCOPE AND OBJECTIVES**

This report encompasses an audit of the financial statements of the University of North Alabama (the "University") and a review of compliance by the University with applicable laws and regulations of the State of Alabama and federal financial assistance programs. The audit was conducted in accordance with government auditing standards generally accepted in the United States of America for financial audits. The objectives of the audit were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the University has complied with applicable laws and regulations.

**CONTENTS OF REPORT**

This report includes the following segments:

1. **Report to the Chief Examiner** – contains items pertaining to state legal compliance, agency operations and other matters.
2. **Independent Auditor's Report** – reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations.
3. **Management's Discussion and Analysis (MD&A)** – a component of Required Supplementary Information (RSI) prepared by the management of the University introducing the basic financial statements and providing an analytical overview of the University's financial activities for the year. This information is supplementary information required by the Governmental Accounting Standards Board (GASB). This information has not been audited, and as a result, no opinion is provided about the fairness of the information in accordance with generally accepted accounting principles.

4. **Financial Section** – includes basic financial statements (Exhibits 1 through 3), and Notes to the Financial Statements.
5. **Supplementary Information** – includes the Schedule of Expenditures of Federal Awards (Exhibit 4), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards.
6. **Additional Information** – contains basic information related to the University (Exhibit 5) and the following reports and items required by generally accepted government auditing standards and/or U. S. Office of Management and Budget (OMB) Circular A-133 for federal compliance audits:

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards** (Exhibit 6) – a report on internal control related to the financial statements and on whether the University has complied with laws and regulations which could have a direct and material effect on the University's financial statements.

**Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance With OMB Circular A-133** (Exhibit 7) – a report on internal control over compliance with requirements of laws, regulations, contracts and grants applicable to major federal programs and an opinion on whether the University complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.

**Schedule of Findings and Questioned Costs** (Exhibit 8) – a report summarizing the results of the audit findings relating to the financial statements as required by **Government Auditing Standards** and findings and questioned costs for federal awards as required by OMB Circular A-133.

### **AUDIT COMMENTS**

The University of North Alabama is a comprehensive, regional, state university, offering undergraduate and graduate degrees, and serving both residential and commuting students. The University shares the broad purpose of all institutions of higher learning for the discovery, preservation, and transmission of knowledge through teaching, research, and public service. Within this broad purpose, the University recognizes a primary obligation of service to the people and the needs of the state and region. The governing control of the University is vested in a Board of Trustees established by action of the State Legislature. The Board is composed of the Governor as president ex officio, the State Superintendent as a member ex officio, and nine members. The Chief administrative officer of the University is the President.

Sworn to and subscribed before me this  
the 1<sup>st</sup> day of September 2005.

Lanita S. Slaton  
Notary Public

Respectfully submitted,

Lola Fuqua-Haney  
Lola Fuqua-Haney  
Examiner of Public Accounts

rb My Commission Expires July 30, 2006

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## **Independent Auditor's Report**

We have audited the accompanying basic financial statements of the University of North Alabama, a component unit of the State of Alabama, as of and for the year ended September 30, 2004, as listed in the table of contents as Exhibits 1 through 3. These financial statements are the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the University of North Alabama, as of September 30, 2004, and its changes in financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated July 8, 2005 on our consideration of the University of North Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with ***Government Auditing Standards*** and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University of North Alabama, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 4) is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 8, 2005

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

# UNIVERSITY OF NORTH ALABAMA

## 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. The report consists of three basic financial statements that provide information on the University as a whole: the Statement of Net Assets, the Statement of Revenues, Expenses and Changes in Net Assets, and the Statement of Cash Flows. The following summary and management discussion of the results is intended to provide the readers with an overview of the financial statements. The comparative figures for FY 2003 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, are one way to measure the financial health of the University. Net assets increased 6.1% in the current fiscal year, to \$61 million.

	2004	2003
<b>Current Assets</b>		
Cash and Short-term Investments	\$ 32,566,808	\$ 29,223,632
Receivables	5,012,875	4,365,380
Inventory, Prepaid Expenses, and Other	<u>993,845</u>	<u>2,026,742</u>
Total Current Assets	38,573,528	35,615,754
<b>Non-Current Assets</b>		
Restricted Cash and Long-term Investments	5,297,841	3,022,784
Long-term Receivables	1,463,857	1,614,115
Other Non Current Assets	494,158	518,649
Capital Assets, Net of Depreciation	52,250,006	42,140,991
Total Non-Current Assets	<u>59,505,862</u>	<u>47,296,539</u>
<b>Total Assets</b>	<b><u>98,079,390</u></b>	<b><u>82,912,293</u></b>
<b>Current Liabilities</b>		
Accounts Payable and Accrued Liabilities	2,199,246	1,663,005
Deferred Revenue	7,230,560	7,742,836
Deposits Held in Custody for Others	443,559	457,428
Long-term Liabilities-Current Portion	<u>391,041</u>	<u>1,101,585</u>
Total Current Liabilities	10,264,406	10,964,854
<b>Non-Current Liabilities</b>		
Long-term Liabilities	<u>26,826,232</u>	<u>14,442,452</u>
<b>Total Liabilities</b>	<b><u>37,090,638</u></b>	<b><u>25,407,306</u></b>
<b>Net Assets</b>		
Invested in Capital Assets, Net of Related Debt	29,340,980	29,403,332
Restricted	7,603,012	6,885,404
Unrestricted	<u>24,044,760</u>	<u>21,216,251</u>
<b>Total Net Assets</b>	<b><u>60,988,752</u></b>	<b><u>57,504,987</u></b>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 98,079,390</u></b>	<b><u>\$ 82,912,293</u></b>

**Cash and short-term investments** increased by \$3.3 million. This was due to an increase in cash and cash equivalents of \$2.2 million, and an increase in short-term investments of \$1.1 million. These increases reflect bond acquisition funds unspent at year-end and funds generated from operations. Short-term investments are defined as those with maturities less than one year. The University monitors the investment portfolio to insure proper adherence to investment guidelines.

**Receivables** include grants, state appropriations, student notes, and various operating receivables. State appropriations receivable consists of the general appropriation from the State of Alabama. Overall current receivables increased approximately \$647,000. This increase is primarily due to an increase in student enrollment and tuition charges.

**Restricted cash and long-term investments**, which include both unrestricted and endowment investments, increased by \$2.2 million due to the transfer of funds from cash and cash equivalents to securities, and the addition of a bond reserve fund for the 2003 Student Housing Bond Issue.

**Capital assets (net)** increased by \$10 million due to new construction and equipment purchases. Construction of the Student Recreation Center and new on-campus student housing was completed during FY 2004. The Student Recreation Center construction was funded by the remaining proceeds from the General Revenue Bonds, Series 1999-A, and other sources. The student housing construction was funded by Student Housing Revenue Bonds, Series 2003, issued December 1, 2003. These additions, net of depreciation and disposals, are summarized in the footnotes to the financial statements.

**Accounts payable and accrued liabilities** increased \$536,000 due to outstanding payables on the construction contract for student housing, as of September 30, 2004.

**Deferred revenue** decreased by 6.6%. This reflects an adjustment of prepaid scholarships due to a GASB 35 accounting adjustment.

**Long-term liabilities** increased by \$12.4 million due to the Student Housing Revenue Bond Issue.

**Net assets** increased 6.1%, reflecting growth that occurred during the year. The University's capital assets grew due to additional grant funding and continued use of previously secured bond financing. Restricted net assets increased as a result of state and other external funding. Unrestricted net assets increased primarily due to capital projects and future debt service.

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

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

	<b>2004</b>	<b>2003</b>
Operating Revenue		
Student Tuition and Fees	\$ 18,872,175	\$ 15,971,481
Auxiliary	4,808,230	3,950,678
Grant and Contracts	7,747,485	7,412,440
Athletic Revenue	315,408	461,262
Other Operating Revenue	<u>771,794</u>	<u>1,101,290</u>
<b>Total Operating Revenue</b>	<b>32,515,092</b>	<b>28,897,151</b>
Operating Expenses	<u>51,661,798</u>	<u>49,461,836</u>
Net Operating Income/(Loss)	<u>(19,146,706)</u>	<u>(20,564,685)</u>
Non-Operating Revenues/(Expenses)		
State Appropriations	22,325,752	22,103,492
Gifts (Including Endowment)	19,237	6,275
Capital Grants, Contracts, and Gifts	544,408	1,463,031
Investment Income	905,820	1,019,804
Other Non-Operating Expense	<u>(1,164,746)</u>	<u>(978,637)</u>
<b>Total Non-Operating Revenues-Net</b>	<b><u>22,630,471</u></b>	<b><u>23,613,965</u></b>
Increase in Net Assets	3,483,765	3,049,280
<b>Net Assets-Beginning of Year</b>	<b><u>57,504,987</u></b>	<b><u>54,455,707</u></b>
<b>Net Assets-End of Year</b>	<b><u>\$ 60,988,752</u></b>	<b><u>\$ 57,504,987</u></b>

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

**Tuition and fees (net)** increased by 18.2% in 2004. The increase was due to an average tuition rate increase of approximately 10% and an enrollment increase of 6% (based on the fall semesters). Additionally, technology and recreation facility fee rates increased by 50%, and the Masters of Business Administration programs realized increased enrollment.

**Auxiliary revenue** consists of income from various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public. These entities are intended to be self-supporting, and charge a fee for their goods or services. Revenue from residence halls, apartments, food services, university health services, rental property, and other student related activities are included in this total. The 22% increase in FY 2004 reflects an increase in housing and general auxiliary revenue.

**Grants and contracts revenue** increased by approximately \$300,000 as a result of additional federal, state and local grants and contracts.

**Athletic revenue** decreased approximately \$145,000, primarily due to a decrease in contributions from the UNA Sportsman's Club.

**Operating expenses** increased by \$2.2 million, or 4.4%. Each category is discussed in detail below.

**State appropriations** increased 1% over the previous year.

**Endowment gifts** reflect revenue to the University endowments. The majority of endowments established for the past decade are held in the UNA Foundation. The gifts reported in the University are additions to existing University endowments.

**Capital grants, contracts and gifts** for FY 2004 included federal transportation grants to fund continuing construction of pedestrian bridge projects and architect fees for a new transportation facility.

**Investment income** decreased as a result of lower unrealized gains on investments in marketable securities.

## **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 expense grew by \$1.1 million from FY 2003 to FY 2004 primarily due to: increased costs for employee benefits, the assumption of health insurance premiums for University retirees previously paid by the State, expenses for recruitment and retention of minority faculty and staff funded by Knight v. Alabama appropriations, and campus technology upgrades funded by a technology fee increase.

Research expenditures increased as a result of increased research grant funding. Public service expenditures increased with the increase in funding from the Alabama Math, Science and Technology Initiative (AMSTI). Academic support and student services expenses remained consistent with the previous year.

The increase in institutional support expenditures from the previous year is due to additional salary expenses for level increases, increased benefit costs, and the addition of health insurance premiums for University retirees.

Operation and maintenance of plant expenditures grew 1.6% primarily due to the additional cost of retiree health insurance premiums. Depreciation expense decreased in FY 2004 due to a \$1 million decrease in depreciation expense of library holdings. As of September 30, 2004, library holdings valued at \$16.8 million were fully depreciated. Scholarship expenses decreased primarily due to a reduction in total Pell awarded. Auxiliary expenditures increased reflecting increases in salary, supplies, and travel, as well as an upgrade in equipment and software for the debit card system.

## Operating Expenses by Natural Classification

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

Salary expenses for part-time faculty grew as a result of increased enrollment. Additional staff salary expenses were due to planned level increases. Benefits expense grew due to increased overall costs for employees combined with the assumption of health insurance premiums for University retirees, previously paid by the State of Alabama.

Supplies and Other expenses changed due to increased fixed costs and additional expenditures for research and public service.

Plant and Equipment expenses grew due to increased expenditures for capital renovation and additional purchases of equipment.

Financial aid expense decreased due to a reduction in Pell awards.

Depreciation expense also decreased due to the full depreciation of library holdings during the fiscal year.

## 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.

	2004	2003
<b>Cash Provided (Used) By:</b>		
Operating Activities	\$ (15,455,358)	\$ (15,229,409)
Non-capital Financing Activities	22,344,989	22,109,767
Capital and Related Financing Activities	(4,285,380)	(3,114,106)
Investing Activities	<u>(344,180)</u>	<u>1,247,698</u>
<b>Net Increase (Decrease) in Cash</b>	<b>2,260,071</b>	<b>5,013,950</b>
<b>Cash, Beginning of Year</b>	<b><u>26,021,793</u></b>	<b><u>21,007,843</u></b>
<b>Cash, End of Year</b>	<b><u>\$ 28,281,864</u></b>	<b><u>\$ 26,021,793</u></b>



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 proceeds from the 2003 bond issue and drawdowns of bond proceeds to complete the construction of the student recreation center, and student housing. Net cash outflow for investing activities reflects the purchases of a long-term certificate of deposit and additional equity purchases within the endowment.

### **Significant Capital Asset and Debt Activity**

Construction on the Student Recreation Center was completed in FY 2004 with funding from the remaining proceeds of the General Revenue Bonds, Series 1999-A. The University issued \$11.9 million in bonds on December 1, 2003 for the purpose of funding the construction of four student housing units. These bonds are secured by student housing revenue. This construction of new student housing was also completed in FY 2004, and were occupied in the Fall semester.

### **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. Decisions made at the State level significantly affect the University. Beginning in FY 2004, an average annual expense of \$800,000, previously paid by the State, was transferred to the University for FY 2004 and for the future. This decision made by the State transfers responsibility to the University to fund health insurance expense for University retirees, through the Public Education Employees Health Insurance Plan (PEEHIP). The University has made internal budget adjustments to fund this added expense. The University recorded an increase in enrollment in Fall 2004, and continues to work toward identifying factors contributing to attracting and retaining students and following through with strategies to address these factors.

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## ***Statement of Net Assets***

### ***September 30, 2004***

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#### **ASSETS**

##### **Current Assets**

Cash and Cash Equivalents	\$ 28,073,215.59
Deposit with Bond Trustee	1,053,669.89
Short-Term Investments	3,439,922.31
Accounts Receivable	4,739,139.74
Inventories	29,945.41
Notes Receivable	273,735.27
Stadium Use Agreement	24,491.18
Other Assets	939,408.84
Total Current Assets	<u>38,573,528.23</u>

##### **Noncurrent Assets**

Restricted Cash and Cash Equivalents	208,648.45
Deposit with Bond Trustee	738,450.26
Other Long-Term Investments	4,350,742.59
Notes Receivable	1,463,857.07
Stadium Use Agreement	494,157.58
Capital Assets:	
Land	3,442,253.89
Improvements Other Than Buildings	7,611,177.77
Buildings	67,362,936.62
Equipment and Furniture	7,501,859.17
Construction in Progress	753,065.48
Library Holdings	16,855,397.50
Less: Accumulated Depreciation	<u>(51,276,684.13)</u>
Total Capital Assets, Net of Depreciation	<u>52,250,006.30</u>
Total Noncurrent Assets	<u>59,505,862.25</u>
Total Assets	<u>\$ 98,079,390.48</u>

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

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**LIABILITIES****Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 2,199,245.84
Deferred Revenue	7,230,559.85
Deposits	67,270.14
Deposits for Others	376,289.18
Stadium Use Payable	24,491.18
Bonds Payable	325,000.00
Compensated Absences	41,549.73
Total Current Liabilities	<u>10,264,405.92</u>

**Noncurrent Liabilities**

Stadium Use Payable	494,157.58
Notes Payable	707,008.20
Bonds Payable	24,965,000.00
Compensated Absences	660,066.59
Total Noncurrent Liabilities	<u>26,826,232.37</u>

Total Liabilities	<u>37,090,638.29</u>
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**NET ASSETS**

Invested in Capital Assets, Net of Related Debt	29,340,979.67
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,086,711.13
Expendable:	
Scholarships and Fellowships	1,933,918.50
Research	345,686.82
Instructional Department Uses	999,480.79
Loans	2,198,954.15
Other	38,261.55
Unrestricted	<u>24,044,759.58</u>
Total Net Assets	<u>\$ 60,988,752.19</u>

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***Statement of Revenues, Expenses and Changes in Net Assets***  
***For the Year Ended September 30, 2004***

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**OPERATING REVENUES**

Student Tuition and Fees (Net of Scholarship Allowances of \$3,650,101.05)	\$ 18,872,174.78
Federal Grants and Contracts	5,724,737.74
State and Local Grants and Contracts	1,109,755.51
Nongovernmental Grants and Contracts	912,991.97
Athletic Revenue	315,408.21
Auxiliary Enterprises:	
Residential Life (Net of Scholarship Allowances of \$135,011.94)	2,071,533.16
Food Service	926,899.97
Vending	63,000.00
Bookstore	109,474.75
Other	1,637,321.81
Other Operating Revenues	771,793.92
Total Operating Revenues	<u>32,515,091.82</u>

**OPERATING EXPENSES**

Instruction	19,643,024.19
Institutional Support	5,644,505.59
Public Service	1,604,587.69
Academic Support	3,233,929.67
Student Services	4,375,509.15
Research	1,321,841.43
Operation and Maintenance	4,259,701.82
Scholarships and Financial Aid	3,656,763.94
Depreciation	3,095,166.04
Auxiliary Enterprises:	
Residential Life	2,249,589.66
Food Service	849,178.89
Bookstore	8,755.97
Other	1,207,708.89
Administrative Fees and Collection Costs	20,124.22
Other Expenditures	491,411.10
Total Operating Expenses	<u>51,661,798.25</u>
Operating Income (Loss)	<u>\$ (19,146,706.43)</u>

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

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**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	\$ 22,325,752.18
Investment Income (Net of Investment Expense of \$19,930.01)	905,820.59
Interest on Capital Asset - Related Debt	(1,164,746.44)
Other Nonoperating Revenues	
Other Nonoperating Expenses	
Net Nonoperating Revenues (Expenses)	<u>22,066,826.33</u>
Income Before Other Revenues, Expenses, Gains, or Losses	<u>2,920,119.90</u>
Capital Appropriations - PSCA	
Capital Grants and Gifts	544,408.00
Additions to Permanent Endowments	<u>19,236.95</u>
Total Other Revenues	<u>563,644.95</u>
Changes in Net Assets	<u>3,483,764.85</u>
Total Net Assets - Beginning of Year	<u>57,504,987.34</u>
Total Net Assets - End of Year	<u><u>\$ 60,988,752.19</u></u>

# ***Statement of Cash Flows***

## ***For the Year Ended September 30, 2004***

### **CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and Fees	\$ 18,327,052.64
Grants and Contracts	8,284,020.06
Payments to Suppliers	(9,951,424.81)
Payments to Employees	(25,706,408.58)
Payments for Scholarships	(3,751,715.92)
Payments for Benefits	(6,452,529.64)
Payments for Utilities	(1,992,414.72)
Loans Issued to Students	(181,495.00)
Collection of Loans to Students	304,061.28
Auxiliary Enterprise Charges:	
Athletics	315,408.21
Residence Halls	1,801,308.86
Food Service	109,474.75
Vending	917,515.10
Bookstore	63,000.00
Other	1,643,771.41
Other Receipts (Payments)	815,018.08
Net Cash Provided (Used) by Operating Activities	<u>(15,455,358.28)</u>

### **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	22,325,752.18
Private Gifts for Endowment Purposes	19,236.95
Net Cash Provided (Used) by Noncapital Financing Activities	<u>22,344,989.13</u>

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

Bond Discount and Issuance Cost	(299,675.70)
Deposit with Trustee	(1,791,184.45)
Proceeds from Capital Debt	11,940,000.00
Capital Grants and Gifts Received	544,408.00
Proceeds from Sale of Capital Assets	10,000.00
Purchase of Capital Assets	(13,214,181.23)
Principal Paid on Capital Debt	(310,000.00)
Interest Paid on Capital Debt	(1,164,746.44)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(4,285,379.82)</u>

### **CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on Investments	905,820.59
Purchase of Investments	(1,250,000.00)
Net Cash Provided (Used) by Investing Activities	<u>(344,179.41)</u>

Net Increase (Decrease) in Cash and Cash Equivalents	2,260,071.62
Cash and Cash Equivalents - Beginning of Year	26,021,792.42
Cash and Cash Equivalents - End of Year	<u>\$ 28,281,864.04</u>

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

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

Operating Income (Loss) \$ (19,146,706.43)

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

Depreciation Expense	3,095,166.04
Changes in Assets and Liabilities:	
(Increase)/Decrease in Receivables	(637,104.40)
(Increase)/Decrease in Inventories	(1,771.12)
(Increase)/Decrease in Note Receivables	122,566.28
(Increase)/Decrease in Other Assets	1,035,778.12
Increase/(Decrease) in Accounts Payable	536,240.60
Increase/(Decrease) in Compensated Absences	66,616.88
Increase/(Decrease) in Deferred Revenue	(512,276.00)
Increase/(Decrease) in Deposits	4,955.14
Increase/(Decrease) in Deposits Held for Others	(18,823.39)

Net Cash Provided (Used) by Operating Activities \$ (15,455,358.28)

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2004***

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

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

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

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

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

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

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).

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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

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

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

##### **1. 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.

##### **2. Investments**

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

##### **3. Receivables**

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### **4. Inventories**

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

#### **5. Capital Assets**

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

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

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

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

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### **6. Long-Term Obligations**

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

#### **7. Compensated Absences**

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

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

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

Faculty of the University does not earn sick or annual leave. Payment is not made to employees for unused sick leave at termination or retirement.

#### **8. Deferred Tuition and Fee Revenue**

Tuition and fee revenues received but related to the period after September 30, 2004, have been deferred.

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2004***

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#### **9. 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.

#### **10. 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.

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

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### **Note 2 – Deposits and Investments**

##### **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.

##### **Investments**

The University's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or are held by the University or its agent in the University's name.

	<u>Category</u> 1	Fair Value
Certificate of Deposit	\$1,014,819.67	\$1,014,819.67
Corporate Bonds	31,924.70	31,924.70
Pooled Investments	3,303,998.22	3,303,998.22
Repurchase Agreements	3,439,922.31	3,439,922.31
Total Investments	<u>\$</u>	<u>\$7,790,664.90</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### Note 3 – Receivables

Receivables are summarized as follows:

<u>Accounts Receivable</u>	
Federal and State Agencies	\$1,256,203.08
Third-Party Contracts	1,246,637.00
Students	2,138,144.83
Other	98,154.83
Total Accounts Receivable	<u>4,739,139.74</u>
<u>Notes Receivable</u>	
Current	273,735.27
Noncurrent	1,463,857.07
Total Notes Receivable	<u>\$1,737,592.34</u>

#### Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2004, was as follows:

	Beginning Balance	Adjustment/ Reclassification	Additions	Deductions	Ending Balance
Land	\$ 3,452,253.89	\$	\$	\$ 10,000.00	\$ 3,442,253.89
Improvements Other Than Buildings	7,611,177.77				7,611,177.77
Buildings	52,826,494.54	14,536,442.08			67,362,936.62
Equipment	6,902,264.19		664,895.98	65,301.00	7,501,859.17
Library Holdings	16,269,425.05		632,676.76	46,704.31	16,855,397.50
Construction in Progress	3,372,899.07	(14,536,442.08)	11,916,608.49		753,065.48
Total	<u>90,434,514.51</u>		<u>13,214,181.23</u>	<u>122,005.31</u>	<u>103,526,690.43</u>
Less: Accumulated Depreciation					
Improvements Other Than Buildings	2,306,439.81		291,809.50		2,598,249.31
Buildings	25,645,134.76		1,510,908.52		27,156,043.28
Equipment	4,072,523.77		659,771.27	65,301.00	4,666,994.04
Library Holdings	16,269,425.06		632,676.75	46,704.31	16,855,397.50
Total Accumulated Depreciation	<u>48,293,523.40</u>		<u>3,095,166.04</u>	<u>112,005.31</u>	<u>51,276,684.13</u>
Capital Assets, Net	<u>\$42,140,991.11</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 52,250,006.30</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### *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.



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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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

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

Fiscal Year Ended September 30,	2004	2003	2002	2001
Total Percentage of Covered Payroll	11.56%	10.02%	10.96%	11.38%
<b>Contributions:</b>				
Percentage Contributed by the University	6.56%	5.02%	5.96%	6.38%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%	5.00%
Contributed by University	\$1,556,612.01	\$1,160,831.06	\$1,313,463.69	\$1,412,717.49
Contributed by Employees	1,189,861.42	1,141,755.67	1,104,649.22	1,109,288.92
Total Contributions	\$2,746,473.43	\$2,302,586.73	\$2,418,112.91	\$2,522,006.41

#### **Note 6 – Construction and Other Significant Commitments**

The University is in the process of completing the construction of the bridges, walk-ways, and bicycle/pedestrian shelter project. This construction is funded primarily from a Federal Transportation Authority grant with a 20% matching contribution by the University from its capital fund.

As of September 30, 2004, the University of North Alabama had been awarded approximately \$6,301,389.24 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### *Note 7 – Accounts Payable*

Accounts payable and accrued liabilities represent amounts due at September 30, 2004, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 373,670.12
Benefits	112,576.63
Interest Payable	519,391.93
Supplies	923,426.37
Other	270,180.79
Total	<u>\$2,199,245.84</u>

#### *Note 8 – Lease Obligations*

##### *Operating Leases*

The University is obligated under a certain lease accounted for as an operating lease. Operating leases do not give rise to property rights. During the fiscal year ended September 30, 2004, the University paid a total of \$49,127.00 for operating leases.

The following is a schedule by fiscal year of future minimum rental payments required under operating leases for facilities that have an initial or remaining noncancelable lease term in excess of one year as of September 30, 2004:

Fiscal Years	Principal	Interest	Total
2004-2005	\$ 24,491.18	\$ 24,635.82	\$ 49,127.00
2005-2006	25,654.51	23,472.49	49,127.00
2006-2007	26,873.10	22,253.90	49,127.00
2007-2008	28,149.58	20,977.42	49,127.00
2008-2009	29,486.68	19,640.32	49,127.00
2009-2010	30,887.30	18,239.70	49,127.00
2010-2011	32,354.45	16,772.55	49,127.00
2011-2012	33,891.28	15,235.72	49,127.00
2012-2013	35,501.12	13,625.88	49,127.00
2013-2014	37,187.42	11,939.58	49,127.00
2014-2015	38,953.82	10,173.18	49,127.00
2015-2016	40,804.13	8,322.87	49,127.00
2016-2017	42,742.33	6,384.67	49,127.00
2017-2018	44,772.59	4,354.41	49,127.00
2018-2019	46,899.27	2,227.72	49,127.00
Total Minimum Payments Required	<u>\$518,648.76</u>	<u>\$218,256.23</u>	<u>\$736,905.00</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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#### **Note 9 – Short-Term Debt**

During fiscal year end September 30, 2002, the University borrowed \$2,000,000.00 from SouthTrust Bank to temporarily fund the purchase of a 16-unit apartment complex and the purchase and renovation of an existing structure to be used for student housing. On February 4, 2004, the beginning balance of the short-term note; \$747,008.00 was renegotiated. The new promissory note requires quarterly payments of interest (variable with initial rate of 2.4%), with one payment of outstanding principle required on February 4, 2009. This change in short-term activity for the year ended September 30, 2004, is summarized below:

	Beginning Balance	Repayment	Transferred to Long-Term	Ending Balance
Note Payable	\$747,008.20	\$40,000.00	\$707,008.20	\$

#### **Note 10 – Long-Term Liabilities**

Long-term liabilities activity for the year ended September 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b><u>Bonds and Notes Payable:</u></b>					
Revenue Bonds	\$13,620,000.00	\$11,940,000.00	\$270,000.00	\$25,290,000.00	\$325,000.00
Notes Payable		707,008.20		707,008.20	
Total Bonds and Notes Payable	13,620,000.00	12,647,008.20	270,000.00	25,997,008.20	325,000.00
<b><u>Other Liabilities:</u></b>					
Compensated Absences	634,999.44	102,381.35	35,764.47	701,616.32	41,549.73
Total Other Liabilities	634,999.44	102,381.35	35,764.47	701,616.32	41,549.73
Total Long-Term Liabilities	\$14,254,999.44	\$12,749,389.55	\$305,764.47	\$26,698,624.52	\$366,549.73

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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

Fiscal Year	Revenue Bonds		Totals
	Principal	Interest	
2004-2005	\$ 325,000.00	\$ 1,193,980.01	\$ 1,518,980.01
2005-2006	605,000.00	1,176,860.01	1,781,860.01
2006-2007	675,000.00	1,154,658.76	1,829,658.76
2007-2008	755,000.00	1,127,887.51	1,882,887.51
2008-2009	845,000.00	1,095,900.01	1,940,900.01
2009-2010	940,000.00	1,057,673.76	1,997,673.76
2010-2011	1,045,000.00	1,013,016.26	2,058,016.26
2011-2012	1,165,000.00	961,906.26	2,126,906.26
2012-2013	1,300,000.00	900,800.01	2,200,800.01
2013-2014	1,445,000.00	831,086.26	2,276,086.26
2014-2015	1,605,000.00	755,210.01	2,360,210.01
2015-2016	1,780,000.00	669,703.76	2,449,703.76
2016-2017	1,970,000.00	573,418.76	2,543,418.76
2017-2018	2,180,000.00	466,249.38	2,646,249.38
2018-2019	470,000.00	399,250.00	869,250.00
2019-2020	350,000.00	381,247.50	731,247.50
2020-2021	370,000.00	365,947.50	735,947.50
2021-2022	385,000.00	349,711.25	734,711.25
2022-2023	400,000.00	332,537.50	732,537.50
2023-2024	420,000.00	314,287.50	734,287.50
2024-2025	440,000.00	293,837.50	733,837.50
2025-2026	460,000.00	271,337.50	731,337.50
2026-2027	485,000.00	247,712.50	732,712.50
2027-2028	510,000.00	222,837.50	732,837.50
2028-2029	535,000.00	196,712.50	731,712.50
2029-2030	565,000.00	169,242.50	734,242.50
2030-2031	595,000.00	140,956.25	735,956.25
2031-2032	620,000.00	112,100.00	732,100.00
2032-2033	650,000.00	81,937.50	731,937.50
2033-2034	685,000.00	50,231.25	735,231.25
2034-2035	715,000.00	16,981.25	731,981.25
Totals	<u>\$25,290,000.00</u>	<u>\$16,925,218.26</u>	<u>\$42,215,218.26</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2004*

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

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

	Issuance Costs	Discount
Total Issuance Costs and Discount	\$267,252.57	\$432,577.50
Amount Amortized Prior Years	28,561.37	55,637.79
Balance Issuance Costs and Discount	238,691.20	376,939.71
Current Amount Amortized	10,440.06	17,891.96
Balance Issuance Costs and Discount	<u>\$228,251.14</u>	<u>\$359,047.75</u>

#### **Note 11 – Risk Management**

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

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

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

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## ***Notes to the Financial Statements***

### ***For the Year Ended September 30, 2004***

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

#### **Note 12 – Endowments**

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

The Board of Trustees chooses to spend only a portion of the investment income (including changes in the value of investments) each year. Under the policy established by the Board, 3-6 percent of the average market value of endowment investments at the end of the previous three years has been authorized for expenditure. The remaining amount, if any, is retained to be used in future years when the amount computed using the spending policy exceeds the investment income. At September 30, 2004, net appreciation totaled \$127,617.87. Of this amount, \$41,682.00 is available to be spent and is restricted to specific purposes.

#### **Note 13 – Related Parties**

##### **University of North Alabama Foundation, Inc.**

University of North Alabama Foundation, Inc., was incorporated as a non-profit corporation to promote scientific, literary, and educational purposes, the advancement of the University of North Alabama, and for the encouragement and support of its students and faculty. This report contains no financial statements of the University of North Alabama Foundation, Inc.

##### **University of North Alabama Alumni Association**

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

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## *Supplementary Information*

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***Schedule of Expenditures of Federal Awards***  
***For the Year Ended September 30, 2004***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Student Financial Assistance Cluster</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Programs</u></b>		
Federal Pell Grant Program	84.063	
Federal Pell Grant Program	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Pell Grant Program Administrative Allowance	84.063	
Federal Work-Study Program	84.033	
Federal Work-Study Program	84.033	
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Supplemental Educational Opportunity Grants	84.007	
Total Student Financial Assistance Cluster (M)		
<b><u>Research and Development Cluster</u></b>		
<b><u>U. S. Department of Health and Human Services</u></b>		
Occupational Health and Surveillance Fatality		
Assessment and Control Evaluation	93.957	
Occupational Safety and Health-Training Grants	93.263	
<b><u>National Aeronautics and Space Administration</u></b>		
Aerospace Education Services Program	43.001	
<b><u>National Aeronautics and Space Administration</u></b>		
<b><u>Passed Through Alabama State Department of Education</u></b>		
Aerospace Education Services Program	43.001	U200550
Aerospace Education Services Program	43.001	U200550
Aerospace Education Services Program	43.001	C3X0458
Total Research and Development Clusters (M)		
<b><u>Child Nutrition Cluster</u></b>		
<b><u>U. S. Department of Agriculture</u></b>		
<b><u>Passed Through State of Alabama Department of Education</u></b>		
National School Lunch Program (NSLP)	10.555	
<b><u>Special Education Cluster</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through the Lamar County Board of Education</u></b>		
Special Education-Grants to States (IDEA, Part B)	84.027	



Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
07/01/2004-06/30/2005	\$ 3,477,265.00	\$ 3,477,265.00	\$ 1,970,783.00	\$ 1,970,783.00
07/01/2003-06/30/2004	4,057,896.00	4,057,896.00	2,087,113.00	2,087,113.00
07/01/2003-06/30/2004	7,805.00	7,805.00	7,805.00	7,805.00
07/01/2002-06/30/2003	20.00	20.00	20.00	20.00
07/01/2004-06/30/2005	251,403.00	251,403.00	43,754.69	43,754.69
07/01/2003-06/30/2004	251,403.00	251,403.00	189,146.75	189,146.75
07/01/2004-06/30/2005	161,252.00	161,252.00	103,100.00	103,100.00
07/01/2003-06/30/2004	184,275.00	184,275.00	81,175.00	81,175.00
			4,482,897.44	4,482,897.44
07/01/2004-06/30/2005	28,984.00	28,984.00	8,580.89	8,580.89
07/01/2003-06/30/2004	32,613.00	32,613.00	21,705.63	21,705.63
02/01/2000-10/31/2003	32,574.00	32,574.00	8,249.48	8,249.48
06/01/2003-05/31/2004	282,753.00	282,753.00	263,409.62	263,409.62
06/01/2004-05/31/2005	941,818.00	941,818.00	469,094.80	469,094.80
09/01/2003-12/31/2003	50,000.00	50,000.00	49,975.40	49,975.40
			821,015.82	821,015.82
10/01/2003-09/30/2004	13,980.08	13,980.08	13,980.08	13,980.08
05/01/2004-09/30/2004	\$ 11,455.40	\$ 11,455.40	\$ 9,732.36	\$ 9,732.36

# ***Schedule of Expenditures of Federal Awards***

## ***For the Year Ended September 30, 2004***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>Federal Transit Cluster</u></b>		
<b><u>U. S. Department of Transportation</u></b>		
<b><u>Passed Through Alabama Department of Transportation</u></b>		
Federal Transit-Capital Investment Grants (M)	20.500	AL-03-0057-00
<b><u>Highway Safety Cluster</u></b>		
<b><u>U. S. Department of Transportation</u></b>		
<b><u>Passed Through the North Alabama Highway Safety Office</u></b>		
Safety Incentives to Prevent Operation of Motor Vehicles By Intoxicated Persons	20.605	04-DT-163-009
State and Community Highway Safety	20.600	03-DT-163-004
Total Highway Safety Cluster		
<b><u>OTHER FEDERAL AWARDS</u></b>		
<b><u>U. S. Department of Education</u></b>		
Child Care Access Means Parents in School	84.335	
Child Care Access Means Parents in School	84.335	
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through the Alabama State Department of Education</u></b>		
Eisenhower Professional Development State Grants	84.281	U300313
<b><u>Small Business Administration</u></b>		
<b><u>Passed Through the University of Alabama at Birmingham</u></b>		
Small Business Development Center	59.037	04-603001-Z-001-24
<b><u>U. S. Department of Defense</u></b>		
<b><u>Passed Through the University of Alabama at Birmingham</u></b>		
Procurement Technical Assistance For Business Firms	12.002	SP4800-03-2-0335
<b><u>U. S. Department of Justice</u></b>		
<b><u>Passed Through the City of Florence</u></b>		
Byrne Formula Grant Program	16.579	03-DB-02-028
<b><u>National Science Foundation</u></b>		
Mathematical and Physical Sciences	47.049	
<b><u>U. S. Department of Agriculture</u></b>		
Forest Service	10	
Total Federal Awards		

(M) = Major Programs

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
08/01/2003-09/30/2005	\$ 6,469,904.00	\$ 5,175,923.00	\$ 635,203.06	\$ 635,203.06
11/17/2003-04/30/2005	500.00	500.00	500.00	500.00
11/17/2003-09/30/2004	4,000.00	4,000.00	3,941.29	3,941.29
			<u>4,441.29</u>	<u>4,441.29</u>
10/01/2003-06/30/2004	31,584.00	31,854.00	23,065.54	23,065.54
10/01/2002-09/30/2003	31,584.00	31,854.00	2,391.12	2,391.12
05/01/2003-05/31/2004	446,832.00	446,832.00	91,201.45	91,201.45
10/01/2003-09/30/2004	71,993.00	71,993.00	71,844.01	71,844.01
10/01/2003-09/30/2004	32,219.00	16,812.00	16,812.00	16,812.00
04/01/2001-03/31/2005	56,166.67	42,125.00	20,255.30	20,255.30
05/20/1998-09/30/2004	7,500.00	7,500.00	1,722.00	1,722.00
09/05/2003-08/01/2004	\$ 2,500.00	\$ 2,500.00	<u>2,328.57</u>	<u>2,328.57</u>
			<u>\$ 6,196,890.04</u>	<u>\$ 6,196,890.04</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2004***

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**Note 1 – Basis of Presentation**

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

**Note 2 – Loans Outstanding**

The University of North Alabama had the following loan balances outstanding at September 30, 2004. These loan balances outstanding are not included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Amount Outstanding
Federal Family Education Loans	84.032	\$13,149,353.27
Federal Perkins Loan Program – Federal Capital Contributions	84.038	1,733,661.19
Nursing Student Loans	93.364	3,931.15
Total Loans		<u>\$14,886,945.61</u>

**Note 3 – Student Financial Aid**

The Federal Supplemental Educational Opportunity Grant Program funds of \$18,428.00 of award 2003-2004 were carried forward and spent in the 2004-2005 award year.

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## *Additional Information*

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***Board Members and Officials***  
***October 1, 2003 through September 30, 2004***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Bob Riley, Governor	Ex-Officio President	State of Alabama State Capitol 600 Dexter Avenue Montgomery, AL 36130	
Hon. Edward R. Richardson, State Superintendent of Education	Ex-Officio Member Through 1/20/2004	State Department of Education 438 State Office Building Montgomery, AL 36130	
Hon. Joseph P. Morton, State Superintendent of Education	Ex-Officio Member	State Department of Education 438 State Office Building Montgomery, AL 36130	
Hon. David B. Abramson	Member	29310 County Road 14 Florence, AL 35633	2007
Hon. Billy Don Anderson	Member President Pro Tempore 06/2002 - to Present	126 Clear View Drive Sheffield, AL 35660	2012
Hon. John B. Cole	Member	142 N. Sequoia Boulevard Florence, AL 35630	2015
Hon. Ronnie Flippo	Member	400 Marian Way Florence, AL 35634	2012
Hon. Steven F. Pierce	Member	P. O. Box 2849 Florence, AL 35630	2012
Hon. Allen Long	Member	220 Cypress Forest Drive Florence, AL 35633	2007

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***Board Members and Officials***  
***October 1, 2003 through September 30, 2004***

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<b>Board Members</b>			<b>Term Expires</b>
Hon. Marc McCreary	Member	1115 Wills Avenue Florence, AL 35630	2007
Hon. Brenda Morrow	Member	801 Chestnut Drive Russellville, AL 35653	2003
Hon. Harvey F. Robbins	Member	Robbins Property Development 100-B South Main Street Tuscumbia, AL 35674	2012

**Officials**

Mr. Robert L. Potts	President Retired 6/30/2004	University of North Alabama UNA Box 5004 Florence, AL 35632-0001
Dr. G. Garry Warren	Interim President Effective 7/1/2004 Through 1/14/2005	University of North Alabama UNA Box 5004 Florence, AL 35632-0001
Dr. W. Steven Smith	Vice President for Business and Financial Affairs	University of North Alabama UNA Box 5003 Florence, AL 35632-0001
Ms. Donna Ford Tipps	Controller	University of North Alabama UNA Box 5001 Florence, AL 35632-0001

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

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We have audited the basic financial statements of the University of North Alabama as of and for the year ended September 30, 2004, and have issued our report thereon dated July 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States.

## **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University of North Alabama's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

## **Compliance and Other Matters**

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

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

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 8, 2005

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

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## **Compliance**

We have audited the compliance of the University of North Alabama with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2004. The University of North Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on the University of North Alabama's compliance based on our audit.

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

In our opinion, the University of North Alabama complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2004.

## **Internal Control Over Compliance**

The management of the University of North Alabama is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the University of North Alabama's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

July 8, 2005

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2004***

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

**Financial Statements**

Type of opinion issued: Unqualified

Internal control over financial reporting:

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

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None reported

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

**Federal Awards**

Internal control over major programs:

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

Reportable condition(s) identified that are not considered to be material weakness(es)? \_\_\_\_\_ Yes      X   None reported

Type of opinion issued on compliance for major programs: Unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.063, 84.033, 84.007, 84.038, 84.032 and 93.364	Student Financial Assistance
43.001, 93.957 and 93.263 20.500	Research and Development Capital Investment Grant

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

Auditee qualified as low-risk auditee?   X   Yes    \_\_\_\_\_ No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2004***

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

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
		The audit did not disclose any findings or questioned costs required to be reported.	

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

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			The audit did not disclose any findings or questioned costs required to be reported.	