

Report on the

University of North Alabama

Florence, Alabama

October 1, 2005 through September 30, 2006

Filed: September 7, 2007



Department of Examiners of Public Accounts

50 North Ripley Street, Room 3201

P.O. Box 302251

Montgomery, Alabama 36130-2251

Website: www.examiners.state.al.us

Ronald L. Jones, Chief Examiner

Table of Contents

	<i>Page</i>
Report to the Chief Examiner	A
Independent Auditor's Report	D
Management's Discussion and Analysis	F
<u>Basic Financial Statements</u>	
University of North Alabama	
Exhibit #1 Statement of Net Assets	1
Exhibit #2 Statement of Revenues, Expenses and Changes in Net Assets	3
Exhibit #3 Statement of Cash Flows	5
University of North Alabama Foundation	
Exhibit #4 Statement of Financial Position	7
Exhibit #5 Statement of Activities	8
<u>Notes to the Financial Statements</u>	
University of North Alabama	10
University of North Alabama Foundation	24
<u>Supplementary Information</u>	30
Exhibit #6 Schedule of Expenditures of Federal Awards	31
Notes to the Schedule of Expenditures of Federal Awards	35

Table of Contents

	<i>Page</i>
<u>Additional Information</u>	36
Exhibit #7 Board Members and Officials	37
Exhibit #8 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	39
Exhibit #9 Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133	41
Exhibit #10 Schedule of Findings and Questioned Costs	43



State of Alabama
Department of
Examiners of Public Accounts

P.O. Box 302251, Montgomery, AL 36130-2251
50 North Ripley Street, Room 3201
Montgomery, Alabama 36104-3833
Telephone (334) 242-9200
FAX (334) 242-1775

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, we submit this report on the University of North Alabama (the "University") and its component unit, the University of North Alabama Foundation for the period October 1, 2005 through September 30, 2006. The University of North Alabama Foundation was audited by other auditors.

SCOPE AND OBJECTIVES

This report encompasses an audit of the financial statements of 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) of the University and (Exhibits 4 and 5) of the component unit and Notes to the Financial Statements of the University and its component unit.
5. **Supplementary Information** – includes the Schedule of Expenditures of Federal Awards (Exhibit 6), which details federal awards expended during the audit period and Notes to the Schedule of Expenditures of Federal Awards, of the University.
6. **Additional Information** – contains basic information related to the University (Exhibit 7) and the following reports and item 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 8) – 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 on Internal Control Over Compliance in Accordance With OMB Circular A-133 (Exhibit 9) – a report on the University’s 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 10) – a report on the University summarizing the results of the audit findings relating to the financial statements as required by ***Government Auditing Standards*** and the University’s 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 21st day of August, 2007.

Melissa Williams
Notary Public

Sworn to and subscribed before me this
the 21st day of August, 2007.

Melissa Williams
Notary Public

Respectfully submitted,

Lola Fuqua-Harley
Lola Fuqua-Harley
Examiner of Public Accounts

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

rb

This Page Intentionally Blank

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, 2006, as listed in the table of contents as Exhibits 1 through 3. These basic financial statements are the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the University of North Alabama Foundation, a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of North Alabama Foundation is based on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Alabama and the University of North Alabama Foundation, as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 10, 2007, on our consideration of the University of North Alabama's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the University of North Alabama, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 6) is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

August 10, 2007

Management's Discussion and Analysis
(Required Supplementary Information)

Management's Discussion and Analysis

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

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

The following summary and management discussion of financial information is intended to provide the readers with an overview of the financial statements.

Statement of Net Assets

The Statement of Net Assets includes all assets and liabilities using the accrual basis of accounting. Net assets, the difference between assets and liabilities, is one way to measure the financial health of the University. Net assets increased 10.1% in the current fiscal year to \$71.8 million.

	<u>2006</u>	<u>2005</u>
<u>Current Assets</u>		
Cash and Short-term Investments	\$ 39,373,843	\$ 34,952,811
Receivables	5,592,711	5,106,290
Inventory, Prepaid Expenses, and Other	<u>1,477,970</u>	<u>1,078,388</u>
Total Current Assets	46,444,524	41,137,489
<u>Non-Current Assets</u>		
Restricted Cash and Long-term Investments	5,538,121	6,209,062
Long-term Receivables	1,436,716	1,455,196
Other Non Current Assets	441,630	468,503
Capital Assets, Net of Depreciation	<u>56,823,351</u>	<u>54,002,114</u>
Total Non-Current Assets	64,239,818	62,134,875
Total Assets	\$110,684,342	\$103,272,364
<u>Current Liabilities</u>		
Accounts Payable and Accrued Liabilities	\$ 2,171,162	\$ 2,066,277
Deferred Revenue	9,837,340	8,516,247
Deposits Held in Custody for Others	509,221	541,135
Long-term Liabilities-Current Portion	<u>747,198</u>	<u>675,708</u>
Total Current Liabilities	13,264,921	11,799,367
<u>Non-Current Liabilities</u>		
Long-term Liabilities	<u>25,652,828</u>	<u>26,308,491</u>
Total Liabilities	38,917,749	38,107,858
<u>Net Assets</u>		
Invested in Capital Assets, Net of Related Debt	\$ 31,821,343	\$ 28,927,408
Restricted	8,583,472	7,994,472
Unrestricted	<u>31,361,778</u>	<u>28,242,626</u>
Total Net Assets	71,766,593	65,164,506
Total Liabilities and Net Assets	\$ 110,684,342	\$103,272,364

Cash and short-term investments increased by \$4.4 million. This was due to an increase in cash and cash equivalents of \$4.3 million, and an increase in short-term investments of approximately \$160,000. The increase in cash and cash equivalents reflects an increase in student enrollment, including on-line MBA, international student programs, and residual budget funds from 2006, as well as the redemption of a certificate of deposit. Short-term investments are defined as those with maturities of less than one year.

Receivables include grants, state appropriations, student notes, and various operating receivables. State appropriations receivable consists of the general appropriation from the State of Alabama. Overall current receivables increased approximately \$490,000 due to an increase in student receivables and receivables from other agencies.

Restricted cash and long-term investments, which include both unrestricted and endowment investments, decreased by approximately \$670,000 due to the redemption and transfer of a certificate of deposit to an interest bearing checking account. The University monitors the investment portfolio to insure proper adherence to investment guidelines.

Capital assets (net) increased by \$2.8 million due primarily to purchase of Powell School and initial costs incurred for a University-wide administrative software upgrade (Banner). These additions, net of depreciation and disposals, are summarized in the footnotes to the financial statements.

Accounts payable and accrued liabilities increased 5.1% due to an increase in payables for salaries and supplies.

Deferred revenue increased by approximately 15.5%. This reflects increased Fall 2006 enrollment along with increased tuition, fees, room and board revenue for the semester. Increases in facilities and technology fees, and an increase in enrollment in the on-line MBA program are represented.

Long-term liabilities decreased by \$655,000 due to a scheduled payment of bond principal.

Net assets increased 10.1% overall, reflecting growth that occurred during the year. The University's capital assets grew due to the software upgrade and the purchase of Powell School. 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.

	<u>2006</u>	<u>2005</u>
<u>Operating Revenue</u>		
Student Tuition and Fees	\$ 25,895,749	\$ 21,473,682
Auxiliary	5,667,312	5,330,455
Grant and Contracts	9,697,456	8,238,756
Athletic Revenue	540,474	405,385
Other Operating Revenue	<u>710,288</u>	<u>920,024</u>
Total Operating Revenue	\$ 42,511,279	\$ 36,368,302
Operating Expenses	<u>63,519,611</u>	<u>56,894,823</u>
Net Operating Income/(Loss)	(21,008,332)	(20,526,521)
<u>Non-Operating Revenues/(Expenses)</u>		
State Appropriations	26,648,541	22,996,602
Capital Grants, Contracts, and Gifts	171,052	1,669,645
Investment Income	2,010,084	1,267,136
Other Non-Operating Expense	<u>(1,219,258)</u>	<u>(1,231,108)</u>
Total Non-Operating Revenues-Net	27,610,419	24,702,275
Increase in Net Assets	<u>6,602,087</u>	<u>4,175,754</u>
Net Assets-Beginning of Year	\$ 65,164,506	\$ 60,988,752
Net Assets-End of Year	\$ 71,766,593	\$ 65,164,506

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 20.6% in 2005. The increase was due to an average tuition rate increase of approximately 3% and an enrollment increase of 7.8% (based on the fall semesters).

Auxiliary revenue consists of income from various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public. These entities are intended to be self-supporting, and charge a fee for their goods or services. Revenue from residence halls, apartments, food services, university health services, rental property, and other student related activities are included in this total. The 6.3% increase in FY 2006 reflects an increase in housing and general auxiliary revenue.

Grants and contracts revenue increased by 17.7% as a result of additional federal, state and local grants and contracts.

Athletic revenue increased 33.3%, primarily due to an increase in external athletic fundraising.

Operating expenses increased \$6.6 million or 11.6%.

State appropriations increased 15.9% 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.

Capital grants, contracts and gifts for FY 2006 were lower due to the FY 2005 completion of the pedestrian walkway construction and the renovation of Coby Hall, which were funded primarily by federal transportation grants and private gifts.

Investment income increased 58.6% as a result of an increase in interest earned and unrealized gains.

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 \$2.2 million from FY 2005 to FY 2006 primarily due to increased costs for employee salaries and benefits including faculty development, additional faculty positions, and new state funding for the Nursing program. Increases in expenses for recruitment and retention of minority faculty and staff funded by Knight v. Alabama appropriations, campus technology upgrades, and supplies and other expenses also contributed to the growth.

Research expenses 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 increased due to employee salaries, benefits, supplies and other expenses.

Student services expenses increased due to growth in employee salaries, benefits, supplies and other expenses.

The increase in institutional support expenditures from the previous year is due to additional salary expenses for level increases, increased benefit costs, and the creation of a new position in the Advancement office.

Operation and maintenance of plant expenses grew primarily due to salary and benefit increases and increased utilities.

Depreciation expense increased due to the increase in capital assets.

Scholarship expenses increased slightly due to an increase in University funded scholarships.

Auxiliary expenses increased due to increases in salary, supplies, and travel, as well as expenses related to operation of the new residence halls.

Operating Expenses by Natural Classification

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

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

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

Supplies and other expenses increased due to increased fixed costs and additional expenses for research and public service.

Plant and equipment expenses increased slightly.

Financial aid expense increased due to increased University funded scholarships.

Statement of Cash Flows

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

	<u>2006</u>	<u>2005</u>
Cash Provided (Used) By:		
Operating Activities	\$ (16,974,977)	\$ (16,087,999)
Non-capital Financing Activities	26,648,541	22,996,602
Capital and Related Financing Activities	(7,961,886)	(4,376,321)
Investing Activities	<u>2,613,441</u>	<u>827,292</u>
Net Increase (Decrease) in Cash	4,325,119	3,359,574
Cash, Beginning of Year	<u>31,641,438</u>	<u>28,281,864</u>
Cash, End of Year	<u>\$35,966,557</u>	<u>\$ 31,641,438</u>

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

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

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

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

Significant Capital Asset and Debt Activity

Construction projects conducted during the year included renovations to Collier Library, the baseball facility, equipment, and other facilities. No new debt was acquired during this reporting period.

Economic and Enrollment Factors That Will Affect the Future

The level of State support, compensation increases, student tuition and fee increases, and energy costs directly affects the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs.

The University recorded a record increase in enrollment for Fall 2006, and continues its ongoing effort to attract and retain students.

This Page Intentionally Blank

Statement of Net Assets
September 30, 2006

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 35,652,805.33
Short-Term Investments	3,721,037.61
Accounts Receivable	5,323,983.80
Inventories	32,458.61
Notes Receivable	268,726.51
Stadium Use Agreement	26,873.10
Other Assets	1,418,638.55
Total Current Assets	<u>46,444,523.51</u>

Noncurrent Assets

Restricted Cash and Cash Equivalents	313,751.71
Deposit with Bond Trustee	1,318,254.97
Other Long-Term Investments	3,906,114.42
Notes Receivable	1,436,716.01
Stadium Use Agreement	441,629.97
Capital Assets:	
Land	3,710,353.89
Improvements Other Than Buildings	10,281,105.80
Buildings	70,308,961.38
Equipment and Furniture	11,234,305.81
Construction in Progress	867,383.30
Library Holdings	18,151,822.50
Less: Accumulated Depreciation	<u>(57,730,581.73)</u>
Total Capital Assets, Net of Depreciation	<u>56,823,350.95</u>
Total Noncurrent Assets	<u>64,239,818.03</u>
Total Assets	<u>\$ 110,684,341.54</u>

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

LIABILITIES**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 2,171,161.64
Deferred Revenue	9,837,339.86
Deposits	78,985.03
Deposits for Others	430,236.20
Stadium Use Payable	26,873.10
Bonds Payable	675,000.00
Compensated Absences	45,324.70
Total Current Liabilities	<u>13,264,920.53</u>

Noncurrent Liabilities

Stadium Use Payable	441,629.97
Notes Payable	642,008.20
Bonds Payable	23,685,000.00
Compensated Absences	884,189.72
Total Noncurrent Liabilities	<u>25,652,827.89</u>

Total Liabilities 38,917,748.42

NET ASSETS

Invested in Capital Assets, Net of Related Debt	31,821,342.75
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,123,661.89
Expendable:	
Scholarships and Fellowships	2,444,828.98
Research	397,007.90
Instructional Department Uses	1,329,548.76
Loans	2,230,264.78
Other	58,160.35
Unrestricted	<u>31,361,777.71</u>
Total Net Assets	<u>\$ 71,766,593.12</u>

***Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2006***

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$4,268,612.16)	\$ 25,895,749.27
Federal Grants and Contracts	5,143,264.88
State and Local Grants and Contracts	3,343,361.58
Nongovernmental Grants and Contracts	1,210,829.71
Auxiliary Enterprises:	
Athletic Revenue	540,474.12
Residential Life (Net of Scholarship Allowances of \$154,810.67)	3,191,724.89
Food Service	999,260.88
Vending	63,141.97
Bookstore	188,723.79
Other	1,322,965.68
Other Operating Revenues	611,782.30
Total Operating Revenues	<u>42,511,279.07</u>

OPERATING EXPENSES

Instruction	24,061,613.69
Institutional Support	6,532,934.48
Public Service	2,910,946.72
Academic Support	3,893,567.43
Student Services	4,757,996.39
Research	2,030,701.40
Operation and Maintenance	5,537,369.60
Scholarships and Financial Aid	3,719,575.81
Depreciation	3,434,114.94
Auxiliary Enterprises:	
Residential Life	2,920,734.39
Food Service	1,094,307.50
Bookstore	7,710.78
Other	1,904,200.79
Administrative Fees and Collection Costs	33,140.34
Other Expenditures	680,697.00
Total Operating Expenses	<u>63,519,611.26</u>
Operating Income (Loss)	<u>\$ (21,008,332.19)</u>

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

NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$ 26,648,541.05
Investment Income (Net of Investment Expense of \$10,756.06)	2,010,083.79
Interest on Capital Asset - Related Debt	<u>(1,219,257.90)</u>
Net Nonoperating Revenues (Expenses)	<u>27,439,366.94</u>
Income Before Other Revenues, Expenses, Gains, or Losses	6,431,034.75
Capital Grants and Gifts	<u>171,052.20</u>
Total Other Revenues	<u>171,052.20</u>
Changes in Net Assets	6,602,086.95
Total Net Assets - Beginning of Year	<u>65,164,506.17</u>
Total Net Assets - End of Year	<u><u>\$ 71,766,593.12</u></u>

Statement of Cash Flows

For the Year Ended September 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 26,539,841.45
Grants and Contracts	9,627,832.32
Payments to Suppliers	(14,808,147.26)
Payments to Employees	(30,737,956.82)
Payments for Scholarships	(3,749,577.12)
Payments for Benefits	(8,608,049.95)
Payments for Utilities	(2,403,763.58)
Loans Issued to Students	(354,414.00)
Collection of Loans to Students	376,311.34
Auxiliary Enterprises:	
Athletics	540,474.12
Residence Halls	3,532,552.58
Food Service	1,066,735.16
Vending	63,141.97
Bookstore	188,723.79
Other	1,322,965.68
Other Receipts (Payments)	428,353.35
Net Cash Provided (Used) by Operating Activities	<u>(16,974,976.97)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	<u>26,648,541.05</u>
Net Cash Provided (Used) by Noncapital Financing Activities	<u>26,648,541.05</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Deposit with Trustee	(28,327.94)
Capital Grants and Gifts Received	171,052.20
Purchase of Capital Assets	(6,255,351.98)
Principal Paid on Capital Debt	(630,000.00)
Interest Paid on Capital Debt	(1,219,257.90)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,961,885.62)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	864,089.91
Interest on Investments	2,010,083.79
Purchase of Investments	(260,732.99)
Net Cash Provided (Used) by Investing Activities	<u>2,613,440.71</u>

Net Increase (Decrease) in Cash and Cash Equivalents	4,325,119.17
Cash and Cash Equivalents - Beginning of Year	<u>31,641,437.87</u>
Cash and Cash Equivalents - End of Year	<u>\$ 35,966,557.04</u>

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

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

Operating Income (Loss) \$ (21,008,332.19)

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

Depreciation Expense 3,434,114.94

Changes in Assets and Liabilities:

(Increase)/Decrease in Receivables (489,838.18)

(Increase)/Decrease in Inventories 5,386.27

(Increase)/Decrease in Note Receivables 21,897.34

(Increase)/Decrease in Other Assets (403,749.96)

Increase/(Decrease) in Accounts Payable 104,884.29

Increase/(Decrease) in Compensated Absences 71,480.99

Increase/(Decrease) in Deferred Revenue 1,321,093.65

Increase/(Decrease) in Deposits 7,010.03

Increase/(Decrease) in Deposits Held for Others (38,924.15)

Net Cash Provided (Used) by Operating Activities \$ (16,974,976.97)

This Page Intentionally Blank

Statement of Financial Position
University of North Alabama Foundation
September 30, 2006 and 2005

	2006	2005
ASSETS		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 5,096,649	\$ 5,306,991
Accounts Receivable	12,062	7,025
Pledges Receivable	514,396	329,488
Inventories	46,766	48,659
Interest Receivable	8,518	12,224
Total Current Assets	<u>5,678,391</u>	<u>5,704,387</u>
<u>Investments:</u>		
Cash Restricted for Long-Term Investment	160,855	10,711
Investments	9,508,439	8,195,854
Total Investments	<u>9,669,294</u>	<u>8,206,565</u>
<u>Fixed Assets:</u>		
Donated Artifacts and Collectibles	183,650	176,650
Furniture and Equipment	34,064	34,064
Sub-Total	<u>217,714</u>	<u>210,714</u>
Less: Accumulated Depreciation	31,459	27,671
Total Fixed Assets	<u>186,255</u>	<u>183,043</u>
<u>Other Assets</u>		
Investment - Campus Projects, LLC	30,000	30,000
Other Assets	90,503	179,740
Total Other Assets	<u>120,503</u>	<u>209,740</u>
TOTAL ASSETS	<u>15,654,443</u>	<u>14,303,735</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Current Liabilities:</u>		
Accounts Payable	2,896	68
Obligations under Annuity Contracts - Current Portion	58,725	60,719
Total Current Liabilities	<u>61,621</u>	<u>60,787</u>
Obligations under Annuity Contracts - Deferred Portion	340,932	364,046
Total Liabilities	<u>402,553</u>	<u>424,833</u>
<u>Net Assets:</u>		
Unrestricted	355,319	391,050
Temporarily Restricted	3,671,014	2,768,827
Permanently Restricted	11,225,547	10,719,025
Total Net Assets	<u>15,251,880</u>	<u>13,878,902</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 15,654,433</u>	<u>\$ 14,303,735</u>

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

Statement of Activities**University of North Alabama Foundation****For the Fiscal Years Ended September 30, 2006 and 2005**

	2006			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
<u>SUPPORT AND REVENUE</u>				
<u>Support:</u>				
Donations	\$ 78,526	\$ 440,239	\$ 500,524	\$ 1,019,289
In-Kind Donations	7,000	-	-	7,000
Other Income	-	69,403	-	69,403
Transfers	9,480	(15,478)	5,998	-
Net Assets Released from Restriction	490,713	(490,713)	-	-
Total Support	<u>585,719</u>	<u>3,451</u>	<u>506,522</u>	<u>1,095,692</u>
<u>Revenue:</u>				
Interest Income	15,091	436,637	-	451,728
Net Unrealized and Realized Gain on Investments	-	462,099	-	462,099
Total Revenue	<u>15,091</u>	<u>898,736</u>	<u>-</u>	<u>913,827</u>
TOTAL SUPPORT AND REVENUE	<u>600,810</u>	<u>902,187</u>	<u>506,522</u>	<u>2,009,519</u>
<u>EXPENSES</u>				
Program Services	437,499	-	-	437,499
Support Services	199,042	-	-	199,042
TOTAL EXPENSES	<u>636,541</u>	<u>-</u>	<u>-</u>	<u>636,541</u>
Net Change in Assets	(35,731)	902,187	506,522	1,372,978
Net Assets at Beginning of Year	<u>391,050</u>	<u>2,768,827</u>	<u>10,719,025</u>	<u>13,878,902</u>
NET ASSETS AT END OF YEAR	<u>\$ 355,319</u>	<u>\$ 3,671,014</u>	<u>\$ 11,225,547</u>	<u>\$ 15,251,880</u>

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

2005			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 54,398	\$ 408,222	\$ 329,379	\$ 791,999
135,000	14,729	-	149,729
1,053	109,865	-	110,918
42,947	(77,447)	34,500	-
786,192	(786,192)	-	-
<u>1,019,590</u>	<u>(330,823)</u>	<u>363,879</u>	<u>1,052,646</u>
12,381	402,765	-	415,146
-	418,007	-	418,007
<u>12,381</u>	<u>820,772</u>	<u>-</u>	<u>833,153</u>
<u>1,031,971</u>	<u>489,949</u>	<u>363,879</u>	<u>1,885,799</u>
728,620	-	-	728,620
244,104	-	-	244,104
<u>972,724</u>	<u>-</u>	<u>-</u>	<u>972,724</u>
59,247	489,949	363,879	913,075
<u>331,803</u>	<u>2,278,878</u>	<u>10,355,146</u>	<u>12,965,827</u>
<u>\$ 391,050</u>	<u>\$ 2,768,827</u>	<u>\$ 10,719,025</u>	<u>\$ 13,878,902</u>

This Page Intentionally Blank

Notes to the Financial Statements

For the Year Ended September 30, 2006

Note 1 – Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Component Units

The Governmental Accounting Standards Board (GASB) has issued Statement Number 39, “Determining Whether Certain Organizations are Component Units”, an amendment to GASB Statement Number 14. Statement Number 39 provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be treated as component units based on the nature and significance of their relationship with the primary government. Generally, it requires reporting as a component unit, an organization that raises and holds economic resources for the direct benefit of a government unit.

The University of North Alabama Foundation (the “Foundation”) was incorporated as a non-profit corporation governed by its own board of directors. It is exempt for federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code, and is a qualified charitable organization established to solicit individual and corporate donations for the direct benefit of the University. Because of the significance of the relationship between the University and the Foundation, the Foundation is considered a component unit of the University. The Foundation’s financial statements and accompanying notes are reported separately because of the difference in the reporting model for the Foundation. The Foundation follows the Financial Accounting Standards Board (FASB) rather than the Governmental Accounting Standards Board (GASB). As a result, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial statements for these differences.

Notes to the Financial Statements

For the Year Ended September 30, 2006

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

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

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

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

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

D. Assets, Liabilities, and Net Assets

1. Deposits and Investments

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2006

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

2. Receivables

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

3. Inventories

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

4. Capital Assets

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

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

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2006

5. Long-Term Obligations

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

6. Compensated Absences

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

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

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

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

7. Deferred Tuition and Fee Revenue

Tuition and fee revenues received but related to the period after September 30, 2006, have been deferred.

8. Net Assets

Net assets are required to be classified for accounting and reporting purposes into the following net asset categories:

- ◆ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.

Notes to the Financial Statements

For the Year Ended September 30, 2006

◆ **Restricted:**

- ✓ **Nonexpendable** – Net assets subject to externally imposed stipulations that they be maintained permanently by the University of North Alabama. Such assets include the University of North Alabama’s permanent endowment funds.
- ✓ **Expendable** – Net assets whose use by the University of North Alabama is subject to externally imposed stipulations that can be fulfilled by actions of the University of North Alabama pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.

- ◆ **Unrestricted** – Net assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Trustees.

9. Federal Financial Assistance Programs

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

10. Scholarship Allowances and Student Aid

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

Note 2 – Deposits and Investments

A. Deposits

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

Notes to the Financial Statements

For the Year Ended September 30, 2006

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

B. Investments

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

As of September 30, 2006, the University had the following investments and maturities:

Investment Type	Fair Value	Years to Maturity			
		Less Than 1	1 - 5	6 - 10	More Than 10
Debt Securities:					
U. S. Agency Securities	\$ 596,830.92	\$	\$318,989.75	\$154,087.60	\$123,753.57
Repurchase Agreements	3,721,037.61	3,721,037.61			
Total Debt Securities	4,317,868.53	\$3,721,037.61	\$318,989.75	\$154,087.60	\$123,753.57
Domestic Stocks	35,211.60				
Mutual Funds	2,954,964.86				
Certificates of Deposit	290,016.79				
Money Market Accounts	1,347,345.22				
Total Investments	\$8,945,407.00				

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

- ◆ **Credit Risk** – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This type of risk falls into the three categories described below:
 - ✓ **Credit Quality** – Nationally recognized statistical rating organizations provide ratings of debt securities quality, which provide investors with information about the issuer’s ability to meet its obligations. The University’s investment policy require that at least 85% of market value of the total equity portfolio shall be stocks rated “B” or better by Standard & Poor’s, with preference given to “Blue Chip” stocks. “No Load” funds with excellent earnings and growth history are preferred. All fixed income securities must have at least “A” rating by Moody’s or Standard & Poor’s at the time of purchase. Shares in externally managed fixed income funds may only be purchased with prior approval by the President or Board. In addition, the policy specifically prohibits eleven types of high risk transactions, such as futures, commodities, and margin purchases.

Notes to the Financial Statements

For the Year Ended September 30, 2006

- ✓ **Custodial Credit Risk** – Custodial credit risk for investments is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if that party fails. The University’s custodial risk is limited. All investments are in the name of the University. Securities held by a third party are either collateralized or part of the SAFE program previously mentioned in the Deposit section.

- ✓ **Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of an entity’s investment in a single issuer. The University’s investment policy reduces risk of this type of loss. The policy requires that equity investments be diversified so that no single issue shall exceed 5% nor shall any single industry exceed 10% of the market value of the total equity securities or any one issuing corporation. Shares in externally managed equity mutual funds may only be purchased with prior approval of the University’s President or Board. These same criteria apply to fixed income investments.

- ◆ **Interest Rate Risk** – Interest rate risk involves the adverse effect changes in interest rates could have on the fair value of an investment. As a means of limiting its exposure to fair value losses arising from interest rates, the University’s investment policy require that maturities of investments be matched against cash flow needs to maximize yields.

- ◆ **Foreign Currency Risk** – This is the risk that changes in exchange rates will adversely affect the fair value of an investment. The policy of the University limits global stocks to a target of 6% of total investments thereby guarding against foreign currency risk.

Note 3 – Receivables

Receivables are summarized as follows:

Accounts Receivable	
Federal and State Agencies	\$1,674,388.52
Third-Party Contracts	1,486,443.76
Students	1,942,183.04
Other	220,968.48
Total Accounts Receivable	5,323,983.80
Notes Receivable	
Current	268,726.51
Noncurrent	1,436,716.01
Total Notes Receivable	\$1,705,442.52

Notes to the Financial Statements

For the Year Ended September 30, 2006

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Adjustment/ Reclassification	Additions	Deductions	Ending Balance
Land	\$ 3,555,353.89	\$	\$ 155,000.00	\$	\$ 3,710,353.89
Improvements Other Than Buildings	10,281,105.80				10,281,105.80
Buildings	69,096,178.38	107,041.00	1,105,742.00		70,308,961.38
Equipment	7,536,299.02		3,731,997.09	(33,990.30)	11,234,305.81
Library Holdings	17,475,931.08		707,977.63	(32,086.21)	18,151,822.50
Construction in Progress	419,789.04	(107,041.00)	554,635.26		867,383.30
Total	108,364,657.21		6,255,351.98	(66,076.51)	114,553,932.68
Less: Accumulated Depreciation					
Improvements Other Than Buildings	2,996,855.93		398,606.62		3,395,462.55
Buildings	28,709,534.78		1,560,128.16		30,269,662.94
Equipment	5,180,221.51		767,402.53	(33,990.30)	5,913,633.74
Library Holdings	17,475,931.08		707,977.63	(32,086.21)	18,151,822.50
Total Accumulated Depreciation	54,362,543.30		3,434,114.94	(66,076.51)	57,730,581.73
Capital Assets, Net	\$ 54,002,113.91	\$	\$2,821,237.04	\$	\$ 56,823,350.95

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.

Notes to the Financial Statements

For the Year Ended September 30, 2006

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

B. Funding Policy

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

Fiscal Year Ended September 30,	2006	2005	2004
Total Percentage of Covered Payroll	13.17%	12.03%	11.56%
Contributions:			
Percentage Contributed by the University	8.17%	7.03%	6.56%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by University	\$2,300,212.39	\$1,821,077.60	\$1,556,612.01
Contributed by Employees	1,411,095.48	1,301,951.68	1,189,861.42
Total Contributions	<u>\$3,711,307.87</u>	<u>\$3,123,029.28</u>	<u>\$2,746,473.43</u>

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, 2006, the University of North Alabama had been awarded approximately \$7,371,502.66 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.

Notes to the Financial Statements
For the Year Ended September 30, 2006

Note 7 – Accounts Payable

Accounts payable and accrued liabilities represent amounts due at September 30, 2006, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 451,179.36
Benefits	95,730.94
Interest Payable	499,151.76
Supplies	694,332.68
Computer System	140,765.95
Other	290,000.95
Total	<u>\$2,171,161.64</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, 2006, 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, 2006:

Fiscal Years	Principal	Interest	Total
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	46,899.28	2,227.72	49,127.00
Total Minimum Payments Required	<u>\$468,503.08</u>	<u>\$170,147.92</u>	<u>\$638,651.00</u>

Notes to the Financial Statements
For the Year Ended September 30, 2006

Note 9 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<u>Bonds and Notes Payable:</u>					
Revenue Bonds	\$24,965,000.00	\$	\$605,000.00	\$24,360,000.00	\$675,000.00
Note Payable	667,008.20		25,000.00	642,008.20	
Total Bonds and Notes Payable	<u>25,632,008.20</u>		<u>630,000.00</u>	<u>25,002,008.20</u>	<u>675,000.00</u>
<u>Other Liabilities:</u>					
Compensated Absences	858,033.43	71,480.99		929,514.42	45,324.70
Total Other Liabilities	<u>858,033.43</u>	<u>71,480.99</u>		<u>929,514.42</u>	<u>45,324.70</u>
Total Long-Term Liabilities	<u>\$26,490,041.63</u>	<u>\$71,480.99</u>	<u>\$630,000.00</u>	<u>\$25,931,522.62</u>	<u>\$720,324.70</u>

The Note Payable in the amount of \$642,008.20 at September 30, 2006, represents a promissory note entered into by the University on February 4, 2004. The note was initially in the amount of \$727,008.20. The note is due in one lump sum payment on February 4, 2009, but the University is allowed to make prepayments toward the principle without penalty. The note carried an interest rate of 2.4% at inception and the rate is variable with no set floor or ceiling.

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

Notes to the Financial Statements
For the Year Ended September 30, 2006

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	
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>\$24,360,000.00</u>	<u>\$14,554,378.24</u>	<u>\$38,914,378.24</u>

Notes to the Financial Statements

For the Year Ended September 30, 2006

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	50,172.13	92,355.93
Balance Issuance Costs and Discount	217,080.44	340,221.57
Current Amount Amortized	11,170.70	18,826.18
Balance Issuance Costs and Discount	<u>\$205,909.74</u>	<u>\$321,395.39</u>

Note 10 – Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University has insurance for its buildings and contents through the State Insurance Fund (SIF), part of the State of Alabama, Department of Finance; Division of Risk Management which operates as a common risk management and insurance program for state owned properties. The University pays an annual premium based on the amount of coverage requested. The 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.

Notes to the Financial Statements
For the Year Ended September 30, 2006

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

Note 11 – Endowments

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, 2006, net appreciation totaled \$178,777.22. Of this amount, \$70,329.00 is available to be spent and is restricted to specific purposes.

Note 12 – Related Parties

University of North Alabama Alumni Association

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

Notes to the Financial Statements
University of North Alabama Foundation
September 30, 2006 and 2005

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION’S ACTIVITIES

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

BASIS OF PRESENTATION

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

CONTRIBUTIONS

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

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

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

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

Notes to the Financial Statements
University of North Alabama Foundation
September 30, 2006 and 2005

PLEDGES (Promises to Give)

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

ACCOUNTING METHOD

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

CASH AND CASH EQUIVALENTS

The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents as reported in the Statement of Cash Flows excludes cash restricted for long-term investment. Banks holding the Foundation's cash balances insure the account up to \$100,000 through the Federal Deposit Insurance Corporation. The Foundation requires collateral to support the credit risk for the amounts in excess of the insured limits. These cash funds are held in interest bearing accounts.

EQUIPMENT

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

INCOME TAXES

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

FUNCTIONAL ALLOCATION OF EXPENSES

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

Notes to the Financial Statements
University of North Alabama Foundation
September 30, 2006 and 2005

ESTIMATES

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

INVESTMENTS

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

NOTE 2 – PLEDGES RECEIVABLE

As of September 30, 2006 and 2005, the Foundation has pledges receivable totaling \$514,386 and \$329,488, respectively. No allowance has been made for uncollectible amounts. Most pledges receivable are restricted by donors for scholarships or are available for general operating support purposes. All pledges receivable at September 30, 2006 and 2005 are due within one to five years. The total pledges receivable as of September 30, 2006, includes \$50,000 temporarily restricted and \$470,520 permanently restricted. Pledges receivable as of September 30, 2005 includes \$102,510 temporarily restricted and \$231,740 permanently restricted. Net pledges receivable were discounted to present value at September 30, 2006 and 2005 using a discount rate of 5%. The net effect at September 30 is as follows:

	2006	2005
Total Pledge Receivable	\$520,520	\$334,250
Unamortized Discount	(6,134)	(4,762)
NET PLEDGES RECEIVABLE	\$514,386	\$329,488

Notes to the Financial Statements
University of North Alabama Foundation
September 30, 2006 and 2005

NOTE 3 – INVESTMENTS

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

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

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

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

	2006	2005
Cash and Cash Equivalents	\$ 160,855	\$ 10,710
U. S. Government Obligations	1,517,180	1,802,647
Bonds	505,081	378,824
Common and Preferred Stock	190,692	522,342
Mutual Funds	7,295,487	5,492,042
TOTAL INVESTMENTS	\$9,669,295	\$8,206,565

Investments as of September 30 are summarized as follows:

	2006		2005	
	Cost	Market	Cost	Market
U. S. Government Obligations and Bonds	\$1,829,094	\$2,022,261	\$2,222,776	\$2,181,471
Common and Preferred Stock and Mutual Funds	7,267,161	7,486,179	6,025,288	6,014,383
TOTAL INVESTMENTS	\$9,096,255	\$9,508,440	\$8,248,064	\$8,195,854

Notes to the Financial Statements
University of North Alabama Foundation
September 30, 2006 and 2005

NOTE 4 – FIXED ASSETS

Fixed assets consisted of the following at September 30:

	2006	2005
Donated Artifacts and Collectibles	\$183,650	\$176,650
Furniture and Equipment	24,364	24,364
Computer Software	9,700	9,700
Sub-Total	<u>217,714</u>	<u>210,714</u>
Less Accumulated Depreciation	<u>31,459</u>	<u>27,671</u>
TOTAL FIXED ASSETS	<u>\$186,255</u>	<u>\$183,043</u>

NOTE 5 – PROGRAM SUPPORT

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

	2006	2005
Decade Reunion	\$18,284	\$ 22,565
Sportsman Club	5,578	6,145
ROTC Memorial	-	-
Smith Bell Tower	-	11,369
UNA Coffee Table Books	1,838	6,340
UNA Magazine	20,223	9,798
Lion Account	22,313	29,820
Coby Hall Campaign	1,628	257,358
Lowell Guthrie Carillon Fund	8,000	-
Other Program Support	7,686	10,130
TOTAL OTHER PROGRAM SUPPORT	<u>\$85,550</u>	<u>\$353,525</u>

Notes to the Financial Statements
University of North Alabama Foundation
September 30, 2006 and 2005

NOTE 6 – NET ASSETS RELEASED FROM RESTRICTIONS

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

	2006	2005
Purpose for which restricted contributions were used:		
Program Services	\$221,117	\$480,892
Instruction	101,694	168,644
Scholarships	167,902	136,656
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$490,713</u>	<u>\$786,192</u>

NOTE 7 – NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS

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

	2006	2005
Program Services	\$1,121,604	\$ 929,274
Instruction	1,254,675	924,416
Scholarships	1,294,735	915,137
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$3,671,014</u>	<u>\$2,768,827</u>

NOTE 8 – NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS

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

	2006	2005
Program Services and Instruction	\$ 4,925,919	\$ 4,914,812
Scholarships	6,299,628	5,804,213
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$11,225,547</u>	<u>\$10,719,025</u>

Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>Student Financial Assistance Cluster</u>		
<u>U. S. Department of Education</u>		
<u>Direct Program</u>		
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)		
<u>Research and Development Cluster</u>		
<u>U. S. Department of Health and Human Services</u>		
<u>Direct Program</u>		
Occupational Safety and Health Program	93.262	
Occupational Safety and Health Program	93.262	
Nursing Workforce Diversity	93.178	
<u>National Aeronautics and Space Administration</u>		
<u>Passed Through Alabama State Department of Education</u>		
Aerospace Education Services Program	43.001	U500475
Aerospace Education Services Program	43.001	X6U0316
Total Research and Development Clusters		
<u>Child Nutrition Cluster</u>		
<u>U. S. Department of Agriculture</u>		
<u>Passed Through Alabama Department of Education</u>		
National School Lunch Program (NSLP)	10.555	
<u>Federal Transit Cluster</u>		
<u>U. S. Department of Transportation</u>		
<u>Passed Through Alabama Department of Transportation</u>		
Federal Transit-Capital Investment Grants	20.500	AL-03-0057-00
<u>Special Education Cluster (IDEA)</u>		
<u>U. S. Department of Education</u>		
<u>Passed Through Alabama Department of Education</u>		
Special Education - Grants to States (IDEA, Part B)	84.027	U600383

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
07/01/2006-06/30/2007	\$ 4,219,802.00	\$ 4,219,802.00	\$ 721,911.62	\$ 721,911.62
07/01/2005-06/30/2006	4,269,176.00	4,269,176.00	2,298,393.00	2,298,393.00
07/01/2005-06/30/2006	7,135.00	7,135.00	7,135.00	7,135.00
07/01/2004-06/30/2005	115.00	115.00	115.00	115.00
07/01/2006-06/30/2007	251,403.00	251,403.00	43,193.49	43,193.49
07/01/2005-06/30/2006	251,403.00	251,403.00	165,999.70	165,999.70
07/01/2006-06/30/2007	126,246.00	126,246.00	21,578.08	21,578.08
07/01/2005-06/30/2006	136,559.00	136,559.00	120,434.00	120,434.00
			<u>3,378,759.89</u>	<u>3,378,759.89</u>
07/01/2005-06/30/2006	28,899.00	28,899.00	18,611.39	18,611.39
07/01/2006-06/30/2007	28,602.00	28,602.00	9,328.16	9,328.16
07/01/2006-06/30/2007	291,043.00	291,043.00	44,903.57	44,903.57
08/01/2005-10/31/2006	118,890.00	118,890.00	51,720.62	51,720.62
02/12/2006-04/30/2006	91,722.00	91,722.00	76,656.17	76,656.17
			<u>201,219.91</u>	<u>201,219.91</u>
10/01/2005-09/30/2006	13,662.86	13,662.86	13,662.86	13,662.86
08/01/2003-09/30/2006	6,469,904.00	5,175,923.00	41,471.50	41,471.50
03/15/2006-09/30/2006	\$ 18,000.00	\$ 18,000.00	\$ 18,000.00	\$ 18,000.00

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2006***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>OTHER FEDERAL AWARDS</u>		
<u>Small Business Administration</u>		
<u>Passed Through the University of Alabama at Birmingham</u>		
Small Business Development Center	59.037	05-603001-Z-0001-25
<u>U. S. Department of Defense</u>		
<u>Direct Program</u>		
Basic Scientific Research	12.431	
<u>Passed Through the University of Alabama at Birmingham</u>		
Procurement Technical Assistance for Business Firms	12.002	SP4800-03-2-0335
<u>U. S. Department of Interior</u>		
<u>Direct Program</u>		
National Heritage Area	15	
<u>National Science Foundation</u>		
<u>Direct Program</u>		
Mathematical and Physical Sciences	47.049	
<u>U. S. Department of State</u>		
<u>Direct Program</u>		
Partnerships for Learning Undergraduate Studies (PLUS)	19	
<u>U. S. Department of Agriculture</u>		
<u>Direct Program</u>		
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		
10/01/2005-09/30/2006	\$ 143,986.00	\$ 71,993.00	\$ 71,993.00	\$ 71,993.00
05/01/2005-04/30/2006	150,000.00	150,000.00	150,000.00	150,000.00
10/01/2005-09/30/2006	54,000.00	32,000.00	31,879.30	31,879.30
02/01/2005-06/01/2009	37,000.00	37,000.00	10,182.58	10,182.58
05/01/2005-04/30/2007	20,000.00	20,000.00	18,572.44	18,572.44
08/01/2005-05/31/2007	247,328.00	189,728.00	48,294.00	48,294.00
09/02/2005-09/30/2008	\$ 5,500.00	\$ 5,000.00	2,461.67	2,461.67
			<u>\$ 3,986,497.15</u>	<u>\$ 3,986,497.15</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2006***

Note 1 – Basis of Presentation

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

Note 2 – Loans

The University of North Alabama had the following loans and loan balances at September 30, 2006. These loans are not included in the Schedule of Expenditures of Federal Awards.

Program Title	Federal CFDA Number	Amount Outstanding
Federal Family Education Loans	84.032	\$16,697,469.88
Federal Perkins Loan Program – Federal Capital Contributions	84.038	1,702,362.37
Nursing Student Loans	93.364	3,080.15
Total Loans		<u>\$18,402,912.40</u>

Note 3 – Student Financial Assistance

The Federal Supplemental Educational Opportunity Grants funds of \$13,655.00 of award year 2005-2006 were carried forward and spent in the 2006-2007 award year.

The Federal Work-Study Funds of \$25,140.00 of award year 2005-2006 were carried forward and spend in 2006-2007 award year.

Additional Information

Board Members and Officials
October 1, 2005 through September 30, 2006

Board Members			Term Expires
Hon. Bob Riley, Governor	Ex-Officio President	State of Alabama State Capitol 600 Dexter Avenue Montgomery, AL 36130	
Hon. Joseph P. Morton, State Superintendent of Education	Ex-Officio Member	Gordon Persons Building 50 N. Ripley Street Montgomery, AL 36130	
Hon. David B. Abramson	Member	29310 County Road 14 Florence, AL 35633	2007
Hon. Billy Don Anderson	Member President Pro Tempore - June 2002 to June 2006	126 Clear View Drive Sheffield, AL 35660	2012
Hon. Lisa G. Ceci	Member	1319 Toney Drive SE Huntsville, AL 35803	2015
Hon. John B. Cole	Member	142 N. Sequoia Boulevard Florence, AL 35630	2015
Hon. Ronnie Flippo	Member	400 Marian Way Florence, AL 35634	2012
Hon. Steven F. Pierce	Member President Pro Tempore - June 2006 to June 2007	P. O. Box 2849 Florence, AL 35630	2012
Hon. Allen Long	Member	220 Cypress Forest Drive Florence, AL 35633	2007

Board Members and Officials
October 1, 2005 through September 30, 2006

Board Members			Term Expires
Hon. Marc McCreary	Member	1115 Wills Avenue Florence, AL 35630	2007
Hon. Harvey F. Robbins	Member	Robbins Property Development 100-B South Main Street Tuscumbia, AL 35674	2015

Officials

Dr. William G. Cale, Jr.	President	University of North Alabama UNA Box 5004 Florence, AL 35632-0001	
Dr. W. Steven Smith	Vice-President for Business and Financial Affairs	University of North Alabama UNA Box 5003 Florence, AL 35632-0001	
Ms. Donna Ford Tipps	Controller	University of North Alabama UNA Box 5001 Florence, AL 35632-0001	
Ms. Julie Graham	Director of Financial Affairs	University of North Alabama UNA Box 5001 Florence, AL 35632-0001	

***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***

We have audited the basic financial statements of the University of North Alabama as of and for the year ended September 30, 2006, and have issued our report thereon dated August 10, 2007. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of North Alabama Foundation as described in our report on the University of North Alabama's financial statements. The financial statements of the University of North Alabama Foundation were not audited in accordance with ***Government Auditing Standards*** and accordingly this report does not extend to the University of North Alabama Foundation.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

***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***

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

August 10, 2007

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

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, 2006. The University of North Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on the University of North Alabama's compliance based on our audit. The University of North Alabama Foundation was not audited in accordance with OMB Circular A-133, accordingly, this report does not extend to the University of North Alabama Foundation.

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, 2006.

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

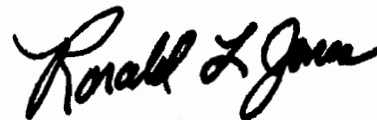
Internal Control Over Compliance

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.

The University of North Alabama Foundation was not audited in accordance with OMB Circular A-133, and accordingly, this report does not extend to the University of North Alabama Foundation.

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

August 10, 2007

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2006

Section II – Financial Statement Findings (GAGAS)

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

Section III – Federal Awards Findings and Questioned Costs

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