

Report on the

**University of North Alabama**

**Florence, Alabama**

**October 1, 2010 through September 30, 2011**

Filed: February 10, 2012



**Department of**

**Examiners of Public Accounts**

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*Ronald L. Jones, Chief Examiner*





Ronald L. Jones  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

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

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the University of North Alabama for the period October 1, 2010 through September 30, 2011.

Sworn to and subscribed before me this  
the 1st day of February, 2012.

Melinda Boarts  
Notary Public

Sworn to and subscribed before me this  
the 1st day of February, 2012.

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Notary Public

Respectfully submitted,

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

Rodney Landrum  
Rodney Landrum  
Examiner of Public Accounts

Kasim Alzoubi  
Kasim Alzoubi  
Examiner of Public Accounts

Peter Fisher  
Peter Fisher  
Examiner of Public Accounts

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**University of North Alabama  
October 1, 2010 through September 30, 2011**

**University of North Alabama Foundation and Subsidiary  
October 1, 2010 through September 30, 2011**

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

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

An unqualified opinion was issued on the basic financial statements of the University and its component unit, which means the financial statements present fairly, in all material respects, the financial positions and the results of operations for the fiscal year ending September 30, 2011.

There were no findings in the prior audit.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state laws and regulations.

The following officials/employees were invited to an exit conference to discuss the results of this audit: Dr. William G. Cale, Jr., President; Dr. W. Steven Smith, Vice-President for Business and Financial Affairs; Ms. Donna Ford Tipps, Controller; Ms. Julie Graham, Director of Financial Affairs; and Mr. Ben Baker, Director of Student Financial Services. The following individuals attended the exit conference: Dr. William G. Cale, Jr., President; Dr. W. Steven Smith, Vice-President for Business and Financial Affairs; Ms. Donna Ford Tipps, Controller; Ms. Julie Graham, Director of Financial Affairs; Ms. Salena Denton, Accountant; Ms. Anita Holcombe, Grant Accountant; Ms. Melissa Williams, Account Specialist; Ms. Catherine White, Director of Human Resources; Ms. Cindy Conlon, Director of Procurement; and Mr. Michael Gautney, Director of Facilities. Representing the Department of Examiners of Public Accounts were: Ms. Andera Anderson, Audit Manager, Mr. Kasim Alzoubi and Mr. Peter Fisher, Examiners.



Department of  
**Examiners of Public Accounts**

**COMMENTS**

**University of North Alabama  
October 1, 2010 through September 30, 2011**

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

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

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

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

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

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

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

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

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

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# *Independent Auditor's Report*

## **Independent Auditor's Report**

We have audited the accompanying basic financial statements of the University of North Alabama, a component unit of the State of Alabama, as of and for the year ended September 30, 2011, as listed in the table of contents as Exhibits 1 through 3. These basic financial statements are the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the University of North Alabama Foundation and Subsidiary, a component unit. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the University of North Alabama Foundation and Subsidiary, is based on the report of other auditors.

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

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University of North Alabama and the University of North Alabama Foundation and Subsidiary, as of September 30, 2011, 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 January 20, 2012 on our consideration of the University of North Alabama's internal control over financial reporting and on 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 required 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.

A handwritten signature in black ink, reading "Ronald L. Jones". The signature is written in a cursive, flowing style.

Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

January 20, 2012

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

## Management's Discussion and Analysis

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

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

The following summary and management discussion of financial information is intended to provide the reader 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 4.9% in the current fiscal year to \$96.5 million.

	2011	2010
<b>ASSETS</b>		
Current Assets		
Cash and Short-Term Investments	\$ 50,284,288	\$ 39,226,956
Receivables	5,355,358	6,959,192
Inventory, Prepaid Expenses, and Other	777,373	726,284
Total Current Assets	56,417,019	46,912,432
Non-Current Assets		
Restricted Cash and Long-Term Investments	32,969,979	16,085,541
Long-Term Receivables	1,464,254	1,668,858
Other Non-Current Assets	1,549,164	699,540
Capital Assets, Net of Depreciation	68,824,570	64,983,673
Total Non-Current Assets	104,807,967	83,437,612
Total Assets	161,224,986	130,350,044
<b>LIABILITIES</b>		
Current Liabilities		
Accounts Payable and Accrued Liabilities	3,217,749	2,715,379
Deferred Revenue	13,314,476	12,864,357
Deposits Held in Custody for Others	683,056	532,424
Other Long-Term Liabilities-Current Portion	921,729	1,139,060
Total Current Liabilities	18,137,010	17,251,220
Non-Current Liabilities		
Long-Term Liabilities	46,595,803	21,131,562
Total Liabilities	64,732,813	38,382,782
<b>NET ASSETS</b>		
Invested in Capital Assets, Net of Related Debt	48,832,032	44,245,991
Restricted	11,382,334	11,575,432
Unrestricted	36,277,807	36,145,839
Total Net Assets	96,492,173	91,967,262
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$161,224,986</b>	<b>\$130,350,044</b>

Cash and short-term investments increased by \$11 million. This was due to maturing certificates of deposit reinvested in short-term money market accounts. Short-term investments are defined as those with maturities of less than one year.

Receivables include grants, state appropriations, student accounts, and various operating receivables. State appropriations receivable consists of the general appropriation from the State of Alabama. Overall current receivables decreased \$1.6 million due to a decrease in student and federal receivables.

Restricted cash and long-term investments, which include both unrestricted and endowment investments, increased by \$16.9 million. The University monitors the investment portfolio to insure proper adherence to investment guidelines. This net increase is due to the receipt of bond proceeds and conversion of long-term certificates of deposit to short-term money market accounts.

Capital assets (net) increased \$3.8 million primarily due to the completion of the transportation facility project.

Accounts payable and accrued liabilities increased \$633,000 due primarily to outstanding payments for ongoing capital projects.

Long-term liabilities increased by \$25 million due to the issuance of the 2010 bond series.

Net assets increased 4.9% overall. The University's net capital assets increased due to an increase in capital projects.

### **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.

	2011	2010
<b>REVENUES</b>		
Operating Revenues		
Student Tuition and Fees	\$ 34,543,346	\$ 32,524,654
Auxiliary Enterprises Revenue (net of scholarship allowances)	7,817,686	7,723,159
Grants and Contracts	6,847,668	7,195,968
Athletic Revenue	968,049	835,992
Other Operating Revenue	988,719	1,187,237
Total Operating Revenues	<u>51,165,468</u>	<u>49,467,010</u>
<b>EXPENSES</b>		
Operating Expenses	85,082,167	82,680,495
Net Operating Income (Loss)	(33,916,699)	(33,213,485)
<b>Non-Operating Revenues (Expenses)</b>		
State Appropriations	25,444,717	25,644,646
Federal Grants and Contracts	10,839,239	9,667,936
Gifts (Including Endowment)	153,476	3,750
Capital Grants, Contracts, and Gifts	3,460,189	3,578,192
Investment Income	284,402	765,308
Other Non-Operating Expense	(1,740,413)	(1,174,305)
Total Non-Operating Revenues-Net	<u>38,441,610</u>	<u>38,485,527</u>
Increase (Decrease) in Net Assets	4,524,911	5,272,042
Net Assets-Beginning of Year	91,967,262	86,695,220
Net Assets-End of Year	<u>\$ 96,492,173</u>	<u>\$91,967,262</u>

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 6.2% in FY 2011. Gross tuition revenue was up \$3 million. Scholarship allowances increased \$1.2 million.

**Auxiliary revenue (net)** consists of income from various enterprise entities that exist predominantly to furnish goods or services to students, faculty, staff or the general public. These entities are intended to be self-supporting, and charge a fee for their goods or services. Revenue from residence halls, apartments, food services, university health services, rental property, and other student related activities are included in this total. Operational revenue remained steady as compared to FY 2010.

**Grants and contracts revenue** dropped 4.8% due to a decrease in AMSTI funding and the completion of the HRSA grant.

**Athletic revenue** increased 15.8%, primarily due to an increase in ticket sales and external athletic fundraising.

**Operating expenses** increased by \$2.4 million, or 2.9%. Each category is discussed in detail.

**Federal grants and contracts** increased \$1.2 million due to an increase in revenue from Pell Grants.

**Endowment gifts** reflect revenue to the University endowments. The majority of endowments established for the past two decades are held in the UNA Foundation, but small gifts are received in the University from year to year, and increased in FY 2011 by \$150,000.

**Investment income** decreased 62.8% during the fiscal year, primarily due to market changes.



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

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

Instructional expenditures increased 2.7% from FY 2010 to FY 2011 primarily due to facultyI staff promotions, salary adjustments and an increase in benefits expense.

Academic support expenditures remained level with the previous fiscal year.

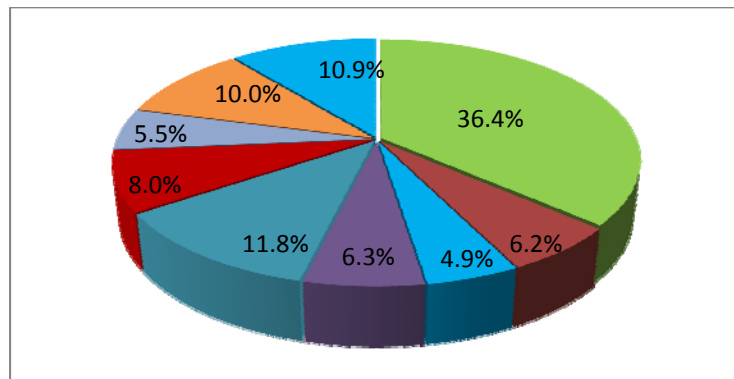
Student service, institutional support and operation and maintenance of plant expenditures remained at about the same level as FY 2010.

Depreciation expense decreased 2.0% from the previous year due to the completed depreciation of certain assets.

Scholarship expenses increased 12.5% due to additional institutional scholarships and an increase in Pell awards.

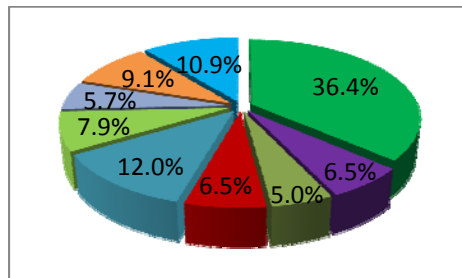
Auxiliary expenditures increased 3% from FY 2010. This is a result of additional expenses in student health services offset by student fee increases and replacement of aging equipment in food service operations.

**2011 Operating Expenses  
Functional Classification**



Instruction	\$ 30,933,969
Research & Public Service	5,308,165
Academic Support	4,149,336
Student Services	5,355,919
Institutional Support	10,051,975
Operation & Maintenance of Plant	6,783,641
Depreciation	4,722,398
Scholarships & Related Expenses	8,509,979
Auxiliary Activities	<u>9,266,785</u>
<b>Total</b>	<b><u>\$ 85,082,167</u></b>

### 2010 Operating Expenses Functional Classification



Instruction	\$ 30,120,164
Research & Public Service	5,285,246
Academic Support	4,116,945
Student Services	5,414,887
Institutional Support	9,910,585
Operation & Maintenance of Plant	6,450,781
Depreciation	4,818,623
Scholarships & Related Expenses	7,562,920
Auxiliary Activities	9,000,344
<b>Total</b>	<b><u>\$82,680,495</u></b>

### Operating Expenses by Natural Classification

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

Salary expenses increased 2.0%. Some positions were not replaced during the year in response to the reduction in State appropriations.

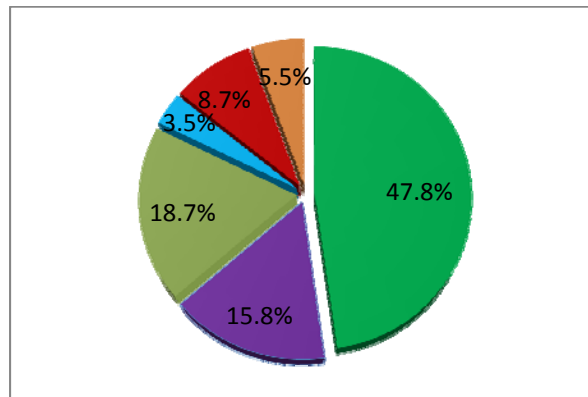
Benefits expense grew by 5.1% due primarily to increased health insurance costs for employees and retirees.

Supplies and other expenses increased 2.0% due in part to reductions in State funding.

Financial aid expense increased 7.7% due to additional University funded scholarships and increased federal grants awarded.

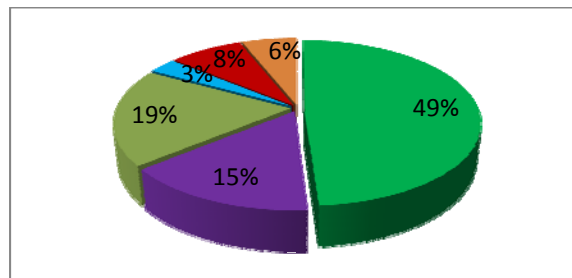
Depreciation expense decreased 2.0% due primarily to the completed depreciation of certain assets.

**2011 Operating Expenses  
Natural Classification**



Salaries	\$ 40,637,804
Benefits	13,441,987
Supplies & Other	15,936,235
Utilities	2,952,259
Financial Aid	7,391,485
Depreciation	<u>4,722,398</u>
<b>Total</b>	<b><u>\$ 85,082,167</u></b>

**2010 Operating Expenses  
Natural Classification**



Salaries	\$ 39,846,857
Benefits	12,784,553
Supplies & Other	15,626,246
Utilities	2,741,169
Financial Aid	6,863,047
Depreciation	<u>4,818,623</u>
<b>Total</b>	<b><u>\$ 82,680,495</u></b>

### 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.

	2011	2010
Cash Provided (Used) By:		
Operating Activities	\$ (26,672,810)	\$ (29,504,324)
Non-capital Financing Activities	36,895,384	35,436,172
Capital and Related Financing Activities	(7,524,342)	(6,989,320)
Investing Activities	8,416,341	(13,963,994)
Net Increase (Decrease) in Cash	11,114,573	(15,021,466)
Cash, Beginning of Year	38,705,626	53,727,092
Cash, End of Year	<u>\$ 49,820, 199</u>	<u>\$ 38,705,626</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 be reported as non-operating although the University's budget depends on this funding to continue the current level of operations.

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

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

### Significant Capital Asset and Debt Activity

Construction projects conducted and completed during the year included the Transportation Facility. On November 30, 2010 the University issued 2010A and B General Fee Revenue Bonds in the amount of \$35,765,000, to refinance the 1999 Series Bonds and to issue new debt in the amount of \$25, 915,000 in Build America Bonds. The new debt was issued to finance the construction of the Science and Engineering Technology Facility.

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

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

The University has experienced a significant reduction in its appropriation from the State of Alabama. The reduction amounted to approximately \$9.5 million for FY 2009 and FY 2010. The reduction for FY 2011 amounted to an additional \$199,929. The University continues to monitor the economic climate of the State as budgeting plans are considered.

The University recorded a small decrease in enrollment for Fall 2011 while efforts to attract and retain students are ongoing.

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# *Basic Financial Statements*

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

### ***September 30, 2011***

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#### **ASSETS**

##### **Current Assets**

Cash and Cash Equivalents	\$ 49,689,033.86
Short-Term Investments	595,254.85
Accounts Receivable, Net	5,355,357.77
Inventories	24,787.99
Notes Receivable	276,334.84
Stadium Use Agreement	33,891.28
Bond Discount	28,082.97
Bond Issuance Cost	19,215.00
Prepaid Assets	395,060.68
Total Current Assets	<u>56,417,019.24</u>

##### **Noncurrent Assets**

Deposit with Trustees	25,835,609.71
Restricted Cash	131,164.76
Investments	7,003,204.16
Bond Discount	751,767.27
Bond Issuance Cost	510,535.83
Loans Receivable	1,464,254.41
Stadium Use Agreement	286,860.68
Capital Assets:	
Land	3,760,728.89
Construction in Progress	4,296,082.10
Improvements Other Than Buildings	12,657,966.02
Buildings	86,910,615.09
Equipment and Furniture	10,489,910.77
Software	7,615,054.57
Library Holdings	22,084,312.89
Less: Accumulated Depreciation	<u>(78,990,100.83)</u>
Total Capital Assets, Net of Depreciation	<u>68,824,569.50</u>
Total Noncurrent Assets	<u>104,807,966.32</u>
Total Assets	<u>\$ 161,224,985.56</u>

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

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## **LIABILITIES**

### **Current Liabilities**

Accounts Payable and Accrued Liabilities	\$ 3,217,749.10
Deferred Revenue	13,314,476.24
Deposit Liabilities	683,056.35
Bonds Payable	855,000.00
Compensated Absences	66,728.95
Total Current Liabilities	<u>18,137,010.64</u>

### **Noncurrent Liabilities**

Bonds Payable	45,455,000.00
Compensated Absences	1,140,802.85
Total Noncurrent Liabilities	<u>46,595,802.85</u>

Total Liabilities	<u>64,732,813.49</u>
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## **NET ASSETS**

Invested in Capital Assets, Net of Related Debt	48,832,031.20
Restricted for:	
Nonexpendable:	
Scholarships and Fellowships	2,529,351.42
Expendable:	
Debt Service	736,097.35
Loans	2,288,808.13
Instructional Department Uses	5,828,077.01
Unrestricted	<u>36,277,806.96</u>
Total Net Assets	<u>\$ 96,492,172.07</u>

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***Statement of Revenues, Expenses and Changes in Net Assets***  
***For the Year Ended September 30, 2011***

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**OPERATING REVENUES**

Student Tuition and Fees (Net of Scholarship Allowances of \$6,432,651.03)	\$ 34,543,345.55
Federal Grants and Contracts	3,603,037.43
State and Local Grants and Contracts	2,920,999.95
Nongovernmental Grants and Contracts	323,630.79
Auxiliary Enterprises:	
Sales and Services of Auxiliary (Net of Scholarship Allowances of \$113,079.27)	7,817,686.23
Athletic Income	968,049.42
Other Operating Revenues	988,718.99
Total Operating Revenues	<u>51,165,468.36</u>

**OPERATING EXPENSES**

Instruction	30,933,968.57
Institutional Support	10,051,975.14
Public Service	4,995,153.28
Academic Support	4,149,335.67
Student Services	5,355,919.10
Research	313,011.53
Operation and Maintenance	6,783,641.34
Scholarships and Financial Aid	8,509,978.97
Depreciation	4,722,398.17
Auxiliary Enterprises	9,266,785.65
Total Operating Expenses	<u>85,082,167.42</u>
Operating Income (Loss)	<u>(33,916,699.06)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	25,444,716.62
Federal Grants and Contracts	10,839,239.10
Investment Income	284,401.96
Bond Interest Rebate	244,018.73
Interest on Capital Asset Related Debt	(1,852,382.84)
Other Nonoperating Revenues/(Expenses)	<u>(132,049.25)</u>
Net Nonoperating Revenues	<u>34,827,944.32</u>
Income Before Other Revenues, Expenses, Gains, or Losses	911,245.26
Capital Grants and Contracts	3,460,189.25
Additions to Permanent Endowments	<u>153,476.01</u>
Changes in Net Assets	<u>4,524,910.52</u>
Total Net Assets - Beginning of Year	<u>91,967,261.55</u>
Total Net Assets - End of Year	<u>\$ 96,492,172.07</u>

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

# ***Statement of Cash Flows***

## ***For the Year Ended September 30, 2011***

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

Tuition and Fees	\$ 35,357,428.97
Grants and Contracts	8,087,538.40
Payments to Suppliers	(15,251,296.36)
Payments to Utilities	(2,952,259.17)
Payments to Employees	(40,759,948.31)
Payments for Benefits	(13,535,956.17)
Payments for Scholarships	(7,391,485.52)
Auxiliary Enterprises	8,784,449.52
Other	988,718.99
Net Cash Provided (Used) by Operating Activities	<u>(26,672,809.65)</u>

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

State Appropriations	25,444,716.62
Gifts and Grants for Other than Capital Purposes	153,476.01
Federal Grants and Contracts	10,839,239.10
Loan Receipts	26,216,578.25
Loan Disbursements	(26,216,578.25)
Other Receipts (Payments)	345,982.36
Bond Surety Fee Expense	(132,049.25)
Build America Bond Rebate	244,018.73
Net Cash Provided (Used) by Noncapital Financing Activities	<u>36,895,383.57</u>

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

Purchases of Capital Assets and Construction	(8,563,294.67)
Grants and Gifts for Capital Assets	2,669,653.00
Capital Appropriation	790,536.25
Stadium Use Agreement Principal	32,354.45
Bond Issuance Cost and Discount	(902,283.46)
Deposits with Trustees	(24,959,136.24)
Principal Paid on Capital Debt	25,165,000.00
Interest Paid on Capital Debt	(1,757,171.07)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(7,524,341.74)</u>

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

Purchase of Investments	8,131,938.89
Investment Income	284,401.96
Net Cash Provided (Used) by Investing Activities	<u>8,416,340.85</u>

Net Increase (Decrease) in Cash and Cash Equivalents	11,114,573.03
Cash and Cash Equivalents - Beginning of Year	38,705,625.59
Cash and Cash Equivalents - End of Year	<u><u>\$ 49,820,198.62</u></u>

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

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

Operating Income (Loss) \$ (33,916,699.06)

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

Depreciation Expense 4,722,398.17

Changes in Assets and Liabilities:

(Increase)/Decrease in Receivables, Net 1,603,834.26

(Increase)/Decrease in Inventories (1,286.13)

(Increase)/Decrease in Prepaids (20,244.17)

Increase/(Decrease) in Compensated Absences 81,909.24

Increase/(Decrease) in Payables 407,158.65

Increase/(Decrease) in Deferred Revenue 450,119.39

Net Cash Provided (Used) by Operating Activities \$ (26,672,809.65)

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***Statement of Financial Position***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**ASSETS**

**Current Assets**

Cash and Cash Equivalents	\$ 1,813,271
Accounts Receivable	58,350
Pledges Receivable	187,533
Prepaid Expenses	5,250
Inventories	3,298
Interest Receivable	16,832
Total Current Assets	<u>2,084,534</u>

**Investments**

Cash Restricted for Long-Term Investment	106,958
Investments	15,501,731
Total Investments	<u>15,608,689</u>

**Fixed Assets**

Donated Artifacts and Collectibles	273,950
Furniture and Equipment	34,064
Sub-Total	<u>308,014</u>
Less: Accumulated Depreciation	34,064
Total Fixed Assets	<u>273,950</u>

**Other Assets**

Pledges Receivable (Net) Non-Current	292,104
Total Other Assets	<u>292,104</u>
TOTAL ASSETS	<u><u>18,259,277</u></u>

**LIABILITIES AND NET ASSETS**

**Current Liabilities**

Accounts Payable	265,965
Obligations under Annuity Contracts - Current Portion	67,249
Total Current Liabilities	<u>333,214</u>

**Long-Term Liabilities**

Obligations under Annuity Contracts - Deferred Portion	252,842
Total Long-Term Liabilities	<u>252,842</u>
Total Liabilities	<u>586,056</u>

**Net Assets**

Unrestricted	71,872
Temporarily Restricted	2,923,927
Permanently Restricted	14,677,422
Total Net Assets	<u>17,673,221</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 18,259,277</u></u>

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

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**Statement of Activities****University of North Alabama Foundation and Subsidiary****For the Year Ended September 30, 2011**

	Unrestricted	Temporarily Restricted
<b><u>SUPPORT AND REVENUE</u></b>		
<b><u>Support:</u></b>		
Contributions	\$ 114,372	\$ 1,230,360
In-Kind Donations	58,464	301,506
Other Income	4,421	216,972
Transfers	354,200	(354,873)
Net Assets Released from Restriction	2,043,642	(2,043,642)
Total Support	<u>2,575,099</u>	<u>(649,677)</u>
<b><u>Revenue:</u></b>		
Interest and Dividend Income	411	454,973
Net Unrealized and Realized Gain (Loss) on Investments	-	(588,127)
Total Revenue	<u>411</u>	<u>(133,154)</u>
 TOTAL SUPPORT AND REVENUE	 <u>2,575,510</u>	 <u>(782,831)</u>
<b><u>EXPENSES</u></b>		
Program Services	1,981,086	-
Support Services	556,137	-
TOTAL EXPENSES	<u>2,537,223</u>	<u>-</u>
 Net Change in Assets	 38,287	 (782,831)
Net Assets at Beginning of Year	<u>33,585</u>	<u>3,706,758</u>
NET ASSETS AT END OF YEAR	<u>\$ 71,872</u>	<u>\$ 2,923,927</u>

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

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Permanently Restricted		Total	
<hr/>		<hr/>	
\$	1,501,019	\$	2,845,751
	-		359,970
	-		221,393
	673		-
	-		-
	<hr/> 1,501,692		<hr/> 3,427,114
	-		455,384
	-		(588,127)
	-		<hr/> (132,743)
	<hr/> 1,501,692		<hr/> 3,294,371
	-		1,981,086
	-		556,137
	-		<hr/> 2,537,223
	1,501,692		757,148
	<hr/> 13,175,730		<hr/> 16,916,073
\$	<hr/> 14,677,422	\$	<hr/> 17,673,221

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

### ***For the Year Ended September 30, 2011***

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

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

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

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

#### **B. Component Unit**

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

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

### ***For the Year Ended September 30, 2011***

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#### **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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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

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

#### **2. Receivables**

Accounts receivable relate to amounts due from federal grants, state grants, student and third party tuition, and auxiliary enterprise sales.

#### **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, other than intangibles, 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. The capitalization threshold for intangible assets such as capitalized software and internally generated computer software is \$1 million and \$100,000 for easements and land use rights and patents, trademarks and copyrights. 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, Construction in Progress and intangible assets with indefinite lives 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. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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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	Straight-Line	25 years
Equipment and Furniture	Straight-Line	5 years
Software	Straight-Line	10 years
Library Materials	Composite	10 years

#### **5. Long-Term Obligations**

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

#### **6. Compensated Absences**

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

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

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

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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

Tuition and fee revenues received but related to the period after September 30, 2011 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.
- ◆ **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.

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

### ***For the Year Ended September 30, 2011***

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#### **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.

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

##### **B. Investments**

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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As of September 30, 2011, 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	\$ 599,367.56	\$ 75,091.80	\$461,823.68	\$ 51,132.27	\$11,319.81
Repurchase Agreement	595,254.85	595,254.85			
Corporate Bonds	228,949.93		113,619.40	115,330.53	
International Bonds	9,629.98	9,629.98			
Total Debt Securities	1,433,202.32	\$679,976.63	\$575,443.08	\$166,462.80	\$11,319.81
Domestic Stocks	27,930.90				
Certificates of Deposit	2,000,000.00				
Money Market Accounts	29,972,935.50				
Total	\$33,434,068.72				

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 requires that at least 85% of market value of the total equity portfolio shall be stocks rated "B" or better by Standard & Poor's, with preference given to "Blue Chip" stocks. "No Load" funds with excellent earnings and growth history are preferred. All fixed income securities must have at least "A" rating by Moody's or Standard & Poor's at the time of purchase. Shares in externally managed fixed income funds may only be purchased with prior approval by the President or Board. In addition, the policy specifically prohibits eleven types of high-risk transactions, such as futures, commodities, and margin purchases.
  - ✓ **Custodial Credit Risk** – Custodial credit risk for investments is the risk that an entity will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if that party fails. The University's custodial risk is limited. All investments are in the name of the University. Securities held by a third party are either collateralized or part of the SAFE program previously mentioned in the Deposit section.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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

#### **Note 3 – Receivables**

Receivables are summarized as follows:

<b><u>Accounts Receivable</u></b>	
Federal and State Agencies	\$1,227,910.55
Third-Party Contracts	1,410,754.56
Students	2,520,573.05
Other	196,119.61
Total Accounts Receivable	<u>5,355,357.77</u>
<b><u>Loan Receivable</u></b>	
Current	276,334.84
Noncurrent	1,464,254.41
Total Loans Receivable	<u>\$1,740,589.25</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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#### **Note 4 – Capital Assets**

Capital asset activity for the year ended September 30, 2011, was as follows:

	Beginning Balance	Adjustment/ Reclassification	Additions	Deductions	Ending Balance
Land	\$ 3,757,428.89	\$	\$ 3,300.00	\$	\$ 3,760,728.89
Improvements Other Than Buildings	12,657,966.02				12,657,966.02
Buildings	82,284,600.72	4,573,739.67	52,274.70		86,910,615.09
Equipment	10,294,391.86		195,518.91		10,489,910.77
Software	7,615,054.57				7,615,054.57
Library Holdings	21,360,639.36		1,053,327.70	329,654.17	22,084,312.89
Construction in Progress	1,610,948.41	(4,573,739.67)	7,258,873.36		4,296,082.10
Total	139,581,029.83		8,563,294.67	329,654.17	147,814,670.33
Less: Accumulated Depreciation					
Improvements Other Than Buildings	5,211,832.52		462,305.61		5,674,138.13
Buildings	37,166,725.28		1,911,726.45		39,078,451.73
Equipment	8,573,643.30		533,532.96		9,107,176.26
Software	2,284,516.37		761,505.45		3,046,021.82
Library Holdings	21,360,639.36		1,053,327.70	329,654.17	22,084,312.89
Total Accumulated Depreciation	74,597,356.83		4,722,398.17	329,654.17	78,990,100.83
Capital Assets, Net	\$ 64,983,673.00	\$	\$3,840,896.50	\$	\$ 68,824,569.50

#### **Note 5 – Defined Benefit Pension Plan**

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

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

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

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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

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

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

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

Fiscal Year Ended September 30,	2011	2010	2009
Total Percentage of Covered Payroll	17.51%	17.51%	17.07%
<u>Contributions:</u>			
Percentage Contributed by the University	12.51%	12.51%	12.07%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by University	\$4,725,006.56	\$4,634,799.39	\$4,511,773.47
Contributed by Employees	1,894,342.36	1,857,885.67	1,874,130.10
Total Contributions	\$6,619,348.92	\$6,492,685.06	\$6,385,903.57

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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

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

The University contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operations of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab. The provisions of GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, were implemented prospectively.

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

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

	Fiscal Year 2011
Individual Coverage – Non-Medicare Eligible	\$146.00
Individual Coverage – Medicare Eligible	\$ 10.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$381.00
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$245.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$245.00
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$109.00
Surviving Spouse – Non-Medicare Eligible	\$701.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$890.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$859.00
Surviving Spouse – Medicare Eligible	\$369.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$558.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$527.00

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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For employees that retire other than for disability, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. The tobacco surcharge is \$27.00 per month for retired members who smoke.

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

Fiscal Year Ended September 30,	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2011	\$1,432,200.00	100%
2010	\$1,263,656.00	100%
2009	\$1,217,052.00	100%

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

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

As of September 30, 2011, the University of North Alabama had been awarded approximately \$10,799,387.97 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

#### **Note 8 – Accounts Payable**

Accounts payable and accrued liabilities represent amounts due at September 30, 2011 for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 451,933.78
Benefits	155,200.08
Interest Payable	527,217.50
Supplies	1,776,952.03
Other	306,445.71
Total	<u>\$3,217,749.10</u>

# Notes to the Financial Statements

## For the Year Ended September 30, 2011

### Note 9 – Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
<b>Bonds Payable:</b>					
Revenue Bonds	\$21,145,000.00	\$35,765,000.00	\$10,600,000.00	\$46,310,000.00	\$855,000.00
Total Bonds Payable	21,145,000.00	35,765,000.00	10,600,000.00	46,310,000.00	855,000.00
<b>Other Liabilities:</b>					
Compensated Absences	1,125,622.56	81,909.24		1,207,531.80	66,728.95
Total Other Liabilities	1,125,622.56	81,909.24		1,207,531.80	66,728.95
Total Long-Term Liabilities	\$22,270,622.56	\$35,846,909.24	\$10,600,000.00	\$47,517,531.80	\$921,728.95

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

The Revenue Bonds were issued in 2010 by the Board of Trustees. The Series 2010A Bonds were issued to refund the Revenue Bond, Series 1999-A. The Series 2010B Bonds were issued to provide funds for construction of a Science and Engineering Technology Facility and associated site improvements.

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	2003 Revenue Bonds		2010B Revenue Bonds		2010A Build America Revenue Bonds		Totals
	Principal	Interest	Principal	Interest	Principal	Interest	
2011-2012	\$ 255,000.00	\$ 479,212.50		\$ 1,080,423.50	\$ 600,000.00	\$ 277,117.50	\$ 2,691,753.50
2012-2013	265,000.00	468,252.50		1,080,423.50	610,000.00	265,017.50	2,688,693.50
2013-2014	275,000.00	456,127.50		1,080,423.50	625,000.00	252,667.50	2,689,218.50
2014-2015	290,000.00	445,190.00		1,080,423.50	635,000.00	240,067.50	2,690,681.00
2015-2016	300,000.00	433,977.50		1,080,423.50	650,000.00	227,217.50	2,691,618.50
2017-2021	1,695,000.00	1,974,391.25		5,402,117.50	3,485,000.00	891,637.50	13,448,146.25
2022-2026	2,105,000.00	1,561,711.25	945,000.00	5,384,457.81	3,245,000.00	257,698.75	13,498,867.81
2027-2031	2,690,000.00	977,431.25	5,315,000.00	4,717,228.73			13,699,659.98
2032-2036	2,670,000.00	261,250.00	7,300,000.00	3,483,587.23			13,714,837.23
2037-2041			12,355,000.00	1,359,739.07			13,714,739.07
Total	\$10,545,000.00	\$7,057,543.75	\$25,915,000.00	\$25,749,247.84	\$9,850,000.00	\$2,411,423.75	\$81,528,215.34

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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#### **Bond Issuance Costs and Premiums**

The University has bond issuance costs as well as bond discounts in connection with the issuance of its 2003 and 2010 Series 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	\$576,450.22	\$842,489.95
Amount Amortized Prior Years	29,956.24	38,303.02
Balance Issuance Costs and Discount	546,493.98	804,186.93
Current Amount Amortized	16,743.15	24,336.69
Balance Issuance Costs and Discount	\$529,750.83	\$779,850.24

#### **Pledged Revenues**

The University has pledged general student tuition and fee revenue to repay the General Fee Revenue Bonds, Series 2010A and the General Fee Revenue Build America Bonds, Series 2010B. Future revenues of \$63,925,672 are pledged to repay principal and interest through maturity in fiscal year 2041. In fiscal year 2011, tuition and fee revenue totaled \$33,791,500, from which \$681,771 was paid for principal and interest or 2.02% of tuition and fee revenue.

The University has also pledged net student housing revenues to repay the 2003 Student Housing Revenue Bonds. Future revenues of \$17,602,544 are pledged to repay principal and interest through maturity in fiscal year 2035. In fiscal year 2011, net student housing revenue totaled \$3,845,784 from which \$732,345 was paid for principal and interest, or 19.04% of housing revenue.

#### **Defeased Debt**

On November 1, 2010, the University issued revenue bonds with an interest rate of 2% to 4% to advance refund the 1999 revenue bonds with an interest rate of 3.8% to 5.4%. The net proceeds from the issuance of the 2010A revenue bonds were used to purchase U. S. Government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide future debt service requirements until maturity. As a result, the revenue bonds were considered to be defeased and the liability for these bonds has been removed.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of old debt of \$175,901.17. This difference is being netted against the new debt and amortized over the remaining life of the old debt, which is shorter than the life of the new debt issued. As a result of the advance refunding, the University increased its total debt service requirements by \$777,507.62, which resulted in an economic gain of \$529,926.08.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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#### **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 for Business and Financial Affairs, Controller, Director of Financial Affairs 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.

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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2011*

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#### **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.

#### **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.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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

**ORGANIZATION'S ACTIVITIES**

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

**BASIS OF ACCOUNTING**

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

**BASIS OF PRESENTATION**

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

- ◆ **Unrestricted Net Assets** – Net assets that are not subject to donor-imposed stipulations.
- ◆ **Temporarily Restricted Net Assets** – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.
- ◆ **Permanently Restricted Net Assets** – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of such assets permit the foundation to use all or part of the income earned on the asset based on the donor-imposed restrictions.

**ESTIMATES**

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

**CASH AND CASH EQUIVALENTS**

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, except for investments purchased with endowment assets, which are classified as long-term investments.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**ACCOUNTS RECEIVABLE**

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

**INVESTMENTS**

Investments are carried at fair value.

**EQUIPMENT**

Furniture and Equipment are stated at cost less accumulated depreciation. 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 FASB ASC 958-360 (formerly SFAS No. 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.

**ENDOWMENT FUNDS**

The Foundation's permanently restricted net assets consist of numerous endowment funds established for the purposes discussed in Note 5. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and, (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard described in the gift agreement. The Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the foundation, and (7) the Foundation's investment policies.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**INVESTMENT RETURN OBJECTIVE, RISK PARAMETERS AND STRATEGIES**

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

**SPENDING POLICY**

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

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

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

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**CONTRIBUTIONS**

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

**INCOME TAXES**

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

**INVENTORIES**

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

**NOTE 2 – PROMISES TO GIVE**

Unconditional promises to give at September 30, 2011, are as follows:

Promises to Give Expected to be Collected in:	
Less than One Year	\$187,533
One to Five Years	256,455
More than Five Years	65,394
Total Pledges	509,382
Less Allowance for Uncollectible Promises to Give	(7,980)
Less Discount on Promises to Give	(21,765)
NET UNCONDITIONAL PROMISES TO GIVE	\$479,637

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**NOTE 3 – FAIR VALUE MEASUREMENTS**

Fair value measurements for assets reported at fair value on a recurring basis were determined based on:

Description	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificate of Deposit	\$ 106,958	\$ 106,958		
Money Market	1,222,746	1,222,746		
Fixed Income				
Government Obligation	1,477,938	1,477,938		
Domestic Mutual Funds	1,980,980	1,980,980		
Other	1,201,727	1,201,727		
Total Fixed Income	4,660,645	4,660,645		
Equities				
International Equities	766,667	766,667		
Domestic Mutual Funds	2,214,478	2,214,478		
International Mutual Funds	1,078,267	1,078,267		
Other	2,253,326	2,253,326		
Total Equities	6,312,738	6,312,738		
Complementary Strategies				
Hedge Investments	928,218	512,904	415,314	
Other	597,300	597,300		
Total Complementary Strategies	1,525,518	1,110,204	415,314	
Real Assets				
Real Asset Funds	1,758,691	1,758,691		
Other	21,393	21,393		
Total Real Assets	1,780,084	1,780,084		
TOTAL INVESTMENTS	\$15,608,689	\$15,193,375	\$415,314	

The Foundation recognizes transfers into and out of levels the end of the reporting period. There were transfers from Level 1 to Level 2 during year ending September 30, 2011.

Fair values from investments are determined by reference to quoted market prices and other relevant information generated by market transactions. Some assets in Level 2 use modeling for valuations.

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**NOTE 4 – FIXED ASSETS**

Fixed Assets consisted of the following at September 30:

Donated Artifacts and Collectibles	\$273,950
Furniture and Equipment	24,364
Computer Software	9,700
	<u>308,014</u>
Less Accumulated Depreciation	34,064
TOTAL FIXED ASSETS	<u>\$273,950</u>

Depreciation expense for the year ending September 30, 2011 was \$0.

**NOTE 5 – RESTRICTIONS ON NET ASSETS**

Net assets released from restrictions during year ending September 30, 2011 were comprised of the following:

Program Services	\$ 782,740
Instruction	622,339
Scholarships	638,563
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$2,043,642</u>

Temporarily restricted net assets at September 30, 2011, are available for the following purposes:

Program Services	\$2,439,082
Instruction	592,562
Scholarships	(107,717)
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$2,923,927</u>

Permanently restricted net assets of the following at September 30, 2011:

Program Services	\$ 4,863,321
Instruction	156,394
Scholarships	9,657,707
TOTAL PERMANENTLY RESTRICTED NET ASSETS	<u>\$14,677,422</u>

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***Notes to the Financial Statements***  
***University of North Alabama Foundation and Subsidiary***  
***September 30, 2011***

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**NOTE 6 – ANNUITY GIFTS AND OBLIGATIONS**

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

Obligations under annuity contracts at September 30, 2011 are as follows:

Current Portion	\$ 67,249
Deferred Portion	252,842
TOTAL ANNUITY OBLIGATIONS	<u>\$320,091</u>

**NOTE 7 – FUNCTIONAL ALLOCATION OF EXPENSES**

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

**NOTE 8 – SUBSEQUENT EVENTS**

The Foundation has evaluated subsequent events through January 3, 2012, the date which the financial statements were available to be issued.

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## *Supplementary Information*

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***Schedule of Expenditures of Federal Awards***  
***For the Year Ended September 30, 2011***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
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**Student Financial Assistance Cluster**

**U. S. Department of Education**

**Direct Programs**

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	
Sub-Total Federal Pell Grant Program		
Federal Work-Study Program	84.033	
Federal Work-Study Program	84.033	
Sub-Total Federal Work-Study Program		
Federal Supplemental Educational Opportunity Grants	84.007	
Federal Supplemental Educational Opportunity Grants	84.007	
Sub-Total Federal Supplemental Educational Opportunity Grants		
Academic Competitiveness Grants	84.375	
National Science and Mathematics Access to Retain Talent (Smart) Grants	84.376	
Total Student Financial Assistance Cluster (M)		

**Highway Safety Cluster**

**U. S. Department of Transportation**

**Passed Through the North Alabama Highway Safety Office**

Safety Belt Performance Grants	20.609	11-HS-K4-003
Alcohol Impaired Driving Countermeasures Incentive Grants I	20.601	11-HS-K8-001
Total Highway Safety Cluster		

**Federal Transit Cluster**

**U. S. Department of Transportation**

**Direct Program**

Federal Transit - Capital Investment Grants (M)	20.500	
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**Highway Planning and Construction Cluster**

**U. S. Department of Transportation**

**Passed Through Alabama Department of Transportation**

Highway Planning and Construction	20.205	SB-AL06 (003)
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**Special Education Cluster (IDEA)**

**U. S. Department of Education**

**Passed Through Alabama Department of Education**

Special Education - Grants to States	84.027	N.A.
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Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
07/01/2011-06/30/2012	\$ 9,446,513.00	\$ 9,446,513.00	\$ 1,741,091.49	\$ 1,741,091.49
07/01/2010-06/30/2011	10,282,520.00	10,282,520.00	8,710,301.69	8,710,301.69
07/01/2010-06/30/2011	12,360.00	12,360.00	12,360.00	12,360.00
07/01/2009-06/30/2010	25.00	25.00	25.00	25.00
			10,463,778.18	10,463,778.18
07/01/2011-06/30/2012	251,403.00	251,403.00	81,365.10	81,365.10
07/01/2010-06/30/2011	251,403.00	251,403.00	217,486.68	217,486.68
			298,851.78	298,851.78
07/01/2011-06/30/2012	145,246.00	145,246.00	18,514.29	18,514.29
07/01/2010-06/30/2011	156,747.00	156,747.00	133,272.55	133,272.55
			151,786.84	151,786.84
07/01/2010-06/30/2011	164,726.00	164,726.00	161,858.91	161,858.91
			77,126.42	77,126.42
07/01/2010-06/30/2011	83,542.00	83,542.00	11,153,402.13	11,153,402.13
04/30/2011-06/25/2011	1,019.80	1,019.80	1,019.80	1,019.80
07/01/2011-09/18/2011	800.00	800.00	436.92	436.92
			1,456.72	1,456.72
08/01/2003-Continuous	6,469,904.00	5,175,923.00	2,546,121.00	2,546,121.00
09/21/2007-Continuous	60,000.00	48,000.00	14,279.45	14,279.45
10/01/2010-09/30/2011	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00	\$ 4,000.00

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***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>State Fiscal Stabilization Fund Cluster</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Passed Through Alabama Department of Education</u></b>		
ARRA - State Fiscal Stabilization Fund (SFSF) - Education State Grants, Recovery Act (M)	84.394	N.A.
<b><u>JAG Program Cluster</u></b>		
<b><u>U. S. Department of Justice</u></b>		
<b><u>Passed Through the City of Florence</u></b>		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	10-DJ-01-013
<b><u>Other Federal Awards</u></b>		
<b><u>U. S. Department of Education</u></b>		
<b><u>Direct Program</u></b>		
Fund for the Improvement of Education	84.215	
<b><u>Passed Through Alabama Department of Education</u></b>		
Mathematics and Science Partnerships	84.366	U900630
Mathematics and Science Partnerships	84.366	U000706
Mathematics and Science Partnerships	84.366	X100542
Total Mathematics and Science Partnerships (M)		
College Access Challenge Grant Program	84.378	P378A10015
Hurricane Education Recovery	84.938	S938A060001
<b><u>U. S. Department of Justice</u></b>		
<b><u>Direct Program</u></b>		
Public Safety Partnership and Community Policing Grants	16.710	
<b><u>Passed Through the Alabama Department of Economic and Community Affairs</u></b>		
Bulletproof Vest Partnership Program	16.607	09 BP BPV 004
<b><u>National Science Foundation</u></b>		
<b><u>Direct Program</u></b>		
Mathematical and Physical Sciences	47.049	
Mathematical and Physical Sciences	47.049	
Total Mathematical and Physical Sciences		

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
10/01/2009-09/30/2011	\$ 4,428,492.00	\$ 4,428,492.00	\$ 2,214,246.00	\$ 2,214,246.00
10/01/2010-09/30/2011	165,868.00	165,868.00	21,648.00	21,648.00
08/29/2008-10/31/2010	145,021.00	120,851.00	9,069.60	9,069.60
08/17/2009-08/16/2011	2,150,600.00	280,000.00	79,185.98	79,185.98
08/17/2010-07/31/2012	2,140,656.00	270,056.00	232,699.81	232,699.81
08/17/2011-08/16/2012	2,140,656.00	270,056.00	56,426.62	56,426.62
			<u>368,312.41</u>	<u>368,312.41</u>
01/15/2011-06/01/2011	8,571.15	8,571.15	8,571.15	8,571.15
09/12/2005-09/30/2011	22,320.00	22,320.00	22,275.00	22,275.00
12/26/2007-12/25/2010	280,590.00	280,590.00	25,778.32	25,778.32
10/01/2009-09/30/2011	565.01	282.50	282.50	282.50
09/01/2010-08/31/2012	19,114.00	19,114.00	1,018.33	1,018.33
07/25/2011-08/31/2012	\$ 30,040.00	\$ 30,040.00	21,494.76	21,494.76
			<u>\$ 22,513.09</u>	<u>\$ 22,513.09</u>

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***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2011***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Number</b>
<b><u>U. S. Department of Health and Human Services</u></b>		
<b><u>Direct Programs</u></b>		
Occupational Safety and Health Program	93.262	
Occupational Safety and Health Program	93.262	
Occupational Safety and Health Program	93.262	
Total Occupational Safety and Health Program		
Health Care and Other Facilities	93.887	
Specially Selected Health Projects	93.888	
<b><u>Small Business Administration</u></b>		
<b><u>Passed Through the University of Alabama</u></b>		
Small Business Development Centers	59.037	1-603001-Z-0001-31
Small Business Development Centers	59.037	1-603001-Z-0101
Total Small Business Development Centers		
<b><u>U. S. Department of Defense</u></b>		
<b><u>Passed Through the University of Alabama</u></b>		
Procurement Technical Assistance for Business Firms	12.002	SP4800-08-2-0801
Procurement Technical Assistance for Business Firms	12.002	SP4800-11-2-1101
Total Procurement Technical Assistance for Business Firms		
<b><u>U. S. Department of the Interior</u></b>		
<b><u>Direct Programs</u></b>		
Conservation Activities by Youth Service Organizations	15.931	
National Heritage Area Federal Financial Assistance	15.939	
Partners for Fish and Wildlife	15.631	
<b><u>Appalachian Regional Commission</u></b>		
<b><u>Direct Program</u></b>		
Appalachian Area Development	23.002	
<b><u>U. S. Department of Commerce</u></b>		
<b><u>Direct Program</u></b>		
Coastal Services Center	11.473	
Total Federal Awards		

(M) = Major Program

N.A. = Not Available

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		
07/01/2009-10/15/2010	\$ 39,975.00	\$ 39,975.00	\$ 1,486.02	\$ 1,486.02
07/01/2010-06/30/2011	39,804.00	39,804.00	39,804.00	39,804.00
07/01/2011-06/30/2012	39,962.00	39,962.00	984.14	984.14
			<u>42,274.16</u>	<u>42,274.16</u>
09/01/2010-09/30/2012	731,850.00	693,000.00	123,532.00	123,532.00
09/01/2010-08/31/2011	99,000.00	99,000.00	99,000.00	99,000.00
10/01/2010-09/30/2011	172,893.00	71,993.00	71,993.00	71,993.00
04/01/2011-03/31/2012	30,000.00	30,000.00	3,468.40	3,468.40
			<u>75,461.40</u>	<u>75,461.40</u>
08/01/2010-07/31/2011	44,000.00	22,000.00	18,323.54	18,323.54
08/01/2011-07/31/2012	44,000.00	22,000.00	3,690.38	3,690.38
			<u>22,013.92</u>	<u>22,013.92</u>
06/12/2011-06/25/2011	15,280.00	15,280.00	12,843.14	12,843.14
07/07/2010-07/06/2015	300,000.00	150,000.00	67,891.43	67,891.43
09/01/2006-09/30/2012	25,350.00	25,350.00	7,579.65	7,579.65
05/01/2010-07/31/2011	12,000.00	5,592.00	5,592.00	5,592.00
10/01/2009-12/31/2011	\$ 499,500.00	\$ 499,500.00	<u>215,061.09</u>	<u>215,061.09</u>
			<u>\$ 17,083,204.16</u>	<u>\$ 17,083,204.16</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2011***

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**Note 1 – Basis of Presentation**

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

**Note 2 – Loans Outstanding**

The University of North Alabama had the following loan balances outstanding at September 30, 2011. These loan balances outstanding are not included in the federal expenditures presented in the schedule.

Program Title	Federal CFDA Number	Amount Outstanding
Federal Direct Student Loans	84.268	\$24,475,989.00
Federal Perkins Loan Program – Federal Capital Contributions (FPL)	84.038	1,740,589.25
Total Loans		<u>\$26,216,578.25</u>

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## *Additional Information*

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***Board Members and Officials***  
***October 1, 2010 through September 30, 2011***

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<b>Board Members</b>		<b>Term Expires</b>
Hon. Bob Riley, Governor	Ex-Officio, President Until January 2011	
Hon. Robert Bentley, Governor	Ex-Officio, President Since January 2011	
Hon. Joseph P. Morton, State Superintendent of Education	Ex-Officio, Member Until August 31, 2011	
Hon. Larry Craven Interim Superintendent	Ex-Officio, Member Until December 31, 2011	
Hon. Billy Don Anderson	Member	2012
Hon. Richard H. Cater	Member	2019
Hon. Lisa G. Ceci	Member	2015
Hon. John B. Cole	Member	2015
Hon. Ronnie Flippo	Member	2012
Hon. Rodney L. Howard	Member	2019
Hon. Steven F. Pierce	Member President Pro Tempore – June 2006 to June 2012	2012
Hon. Harvey F. Robbins	Member	2015
Hon. Libby Watts Jordan	Member	2019
<b><u>Officials</u></b>		
Dr. William G. Cale, Jr.	President	
Dr. W. Steven Smith	Vice-President for Business and Financial Affairs	
Ms. Donna Ford Tipps	Controller	
Ms. Julie Graham	Director of Financial Affairs	

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

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We have audited the financial statements of the University of North Alabama as of and for the year ended September 30, 2011, and have issued our report thereon dated January 20, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Other auditors audited the financial statements of the University of North Alabama Foundation and Subsidiary as described in our report on the University of North Alabama's financial statements. The financial statements of the University of North Alabama Foundation and Subsidiary were not audited in accordance with ***Government Auditing Standards*** and accordingly this report does not extend to the University of North Alabama Foundation and Subsidiary.

## **Internal Control Over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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

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## **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***.

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

January 20, 2012

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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**Independent Auditor's Report**

**Compliance**

We have audited the University of North Alabama's compliance with the types of compliance requirements described in the ***OMB Circular A-133 Compliance Supplement*** that could have a direct and material effect on each of the University of North Alabama's major federal programs for the year ended September 30, 2011. The University of North Alabama's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the University of North Alabama's management. Our responsibility is to express an opinion on the University of North Alabama's compliance based on our audit. The financial statements of the University of North Alabama Foundation and Subsidiary were not audited in accordance with OMB Circular A-133, accordingly, this report does not extend to the University of North Alabama Foundation and Subsidiary.

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

In our opinion, the University of North Alabama complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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**Internal Control Over Compliance**

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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***Report on Compliance With Requirements That Could  
Have a Direct and Material Effect on Each Major  
Program and on Internal Control Over Compliance in  
Accordance With OMB Circular A-133***

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



Ronald L. Jones  
Chief Examiner

Department of Examiners of Public Accounts

January 20, 2012

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2011***

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

**Financial Statements**

Type of opinion issued:	<u>Unqualified</u>	
Internal control over financial reporting:		
Material weakness(es) identified?	_____ Yes	<u>  X  </u> No
Significant deficiency(ies) identified?	_____ Yes	<u>  X  </u> None reported
Noncompliance material to financial statements noted?	_____ Yes	<u>  X  </u> No

**Federal Awards**

Internal control over major programs:		
Material weakness(es) identified?	_____ Yes	<u>  X  </u> No
Significant deficiency(ies) identified?	_____ Yes	<u>  X  </u> None reported
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>	
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	_____ Yes	<u>  X  </u> No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2011***

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

Identification of major programs:

<b>CFDA Number(s)</b>	<b>Name of Federal Program or Cluster</b>
84.007	<u>Student Financial Assistance Cluster</u> Federal Supplemental Educational Opportunity Grants
84.033	Federal Work-Study Program
84.063	Federal Pell Grant Program
84.375	Academic Competitiveness Grants
84.376	National Science and Mathematics Access to Retain Talent (SMART) Grants
84.268	Federal Direct Student Loans
84.038	Federal Perkins Loan Program – Federal Capital Contributions
84.394	<u>State Fiscal Stabilization Fund Cluster</u> ARRA-State Fiscal Stabilization Fund (SFSF) – Education State Grants, Recovery Act
84.366	Mathematics and Science Partnerships
20.500	<u>Federal Transit Cluster</u> Federal Transit – Capital Investment Grants

Dollar threshold used to distinguish between  
Type A and Type B programs:

\$300,000.00

Auditee qualified as low-risk auditee?

\_\_\_\_\_ Yes      X   No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2011***

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

<b>Ref. No.</b>	<b>Type of Finding</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
		No matters were reportable.	

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

<b>Ref. No.</b>	<b>CFDA No.</b>	<b>Program</b>	<b>Finding/Noncompliance</b>	<b>Questioned Costs</b>
			No matters were reportable.	