

University of NORTH ALABAMA

FINANCIAL REPORT 2017



University of North Alabama

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September 30, 2017

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PART I

FINANCIAL STATEMENTS

Independent Auditor's Report

To the Board of Trustees
University of North Alabama

We have audited the accompanying financial statements of the University of North Alabama ("UNA" or "the University"), a component unit of the State of Alabama, and its discretely presented component unit as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise UNA's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free from material misstatement. The financial statements of the discretely presented component, the University of North Alabama Foundation ("UNAF"), were not audited in accordance with *Governmental Auditing Standards*.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNA and its discretely presented component unit as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11, the schedule of University of North Alabama's proportionate share of the net pension liability on page 66, and the schedule of University of North Alabama's contributions on page 67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal

awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Listing of University Officials on page 68 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2018 on our consideration of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering University of North Alabama's internal control over financial reporting and compliance.

CDPA, P.C.

Florence, Alabama
February 21, 2018

University of North Alabama
Management's Discussion and Analysis
September 30, 2017

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 (UNAF). The report consists of three basic financial statements that provide information on the University and two statements providing information on UNAF.

The University statements presented are the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, and the Statement of Cash Flows. These statements begin on page 12, and should be read in conjunction with the Notes to the Financial Statements starting on page 21. UNAF's statements presented are the Statement of Financial Position and Statement of Activities and Changes in Net Assets, shown on pages 14-15 and 18, respectively. 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 Position

ASSETS	2017	2016	2015
Current Assets			
Cash and Short-term Investments	\$ 42,543,204	\$ 39,894,843	\$ 35,652,442
Receivables	8,022,868	7,572,156	10,348,470
Inventory, Prepaid Expenses, and Other	9,082,625	9,641,415	8,646,672
Total Current Assets	<u>59,648,697</u>	<u>57,108,414</u>	<u>54,647,584</u>
Non-Current Assets			
Restricted Cash and Long-term Investments	11,248,201	14,890,915	19,485,593
Other Non-Current Assets	284,877	403,888	521,174
Capital Assets, Net of Depreciation	147,120,359	147,114,072	145,530,389
Total Non-Current Assets	<u>158,653,437</u>	<u>162,408,875</u>	<u>165,537,156</u>
Total Assets	<u>\$ 218,302,134</u>	<u>\$ 219,517,289</u>	<u>\$ 220,184,740</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources Related to Pensions	\$ 12,486,999	\$ 11,324,178	\$ 5,264,031
Loss on Refunding Bonds	336,096	349,256	399,809
Total Deferred Outflows of Resources	<u>\$ 12,823,095</u>	<u>\$ 11,673,434</u>	<u>\$ 5,663,840</u>
LIABILITIES			
Current Liabilities			
Accounts Payable and Current Liabilities	\$ 10,307,642	\$ 9,489,179	\$ 10,333,763
Unearned Revenue	28,166,310	27,846,944	23,251,864
Total Current Liabilities	<u>38,473,952</u>	<u>37,336,123</u>	<u>33,585,627</u>
Non-Current Liabilities			
Long-term Liabilities	142,620,210	142,883,743	133,629,897
Total Liabilities	<u>\$ 181,094,162</u>	<u>\$ 180,219,866</u>	<u>\$ 167,215,524</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources Related to Pensions	<u>\$ 2,375,865</u>	<u>\$ 362,865</u>	<u>\$ 4,216,000</u>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	\$ 72,875,642	\$ 71,312,133	\$ 68,758,621
Restricted	10,260,938	8,820,233	16,522,071
Unrestricted (deficit)	(35,481,378)	(29,524,374)	(30,863,636)
Total Net Position	<u>\$ 47,655,202</u>	<u>\$ 50,607,992</u>	<u>\$ 54,417,056</u>

The Statement of Net Position includes all assets and liabilities using the accrual basis of accounting. Net position, the difference between position and liabilities, is one way to measure the financial health of the University. Net position decreased 5.8% in the current fiscal year.



Cash and short-term investments increased by \$2.6 million. This increase reflects a reallocation of \$3.6 million of investments from long-term investments to short-term investments at end of fiscal year. The total \$3.6 million is offset by a \$1 million decrease in operating cash for one time expenditures to equal the net increase of \$2.6 million.

Receivables include grants, state appropriations, student accounts, and various operating receivables. State appropriations receivable consists of the general appropriation from the State of Alabama.

Restricted cash and long-term investments, includes unrestricted, endowment, and bond proceeds. Investments decreased by \$3.6 million. The decrease is due to reallocation noted above in cash and short-term investment explanation. The University monitors the investment portfolio to insure proper adherence to investment guidelines.

Capital assets (net) increased slightly due to current year equipment and building additions, including capitalized interest, of \$5.7 million offset by \$5.7 million in depreciation expense.

Accounts payable and current liabilities increased 8.6% due to an increase accrued salaries and vendor purchases.

Deferred outflows and inflow of resources represent employer contributions to the pension plan subsequent to the measurement date, changes in proportionate share of contributions, and differences between projected and actual earnings of the pension plan.

Net position decreased 5.8% overall. The decrease is due to overall financial operations and current year increase to pension obligation.

Statement of Revenues, Expenses and Changes in Net Position

REVENUES	2017	2016	2015
Operating Revenues			
Student Tuition and Fees (net of scholarship allowances)	\$ 43,561,591	\$ 39,672,382	\$ 39,242,816
Auxiliary Enterprises Revenue (net of allowances)	16,890,635	14,917,557	12,181,598
Grants and Contracts	6,094,180	4,954,843	4,009,849
Athletic Revenue	1,491,860	1,063,150	755,155
Other Operating Revenue	1,608,960	2,058,492	1,618,064
Total Operating Revenues	<u>69,647,226</u>	<u>62,666,424</u>	<u>57,807,482</u>
EXPENSES			
Operating Expenses	<u>110,553,471</u>	<u>101,781,556</u>	<u>97,212,348</u>
Net Operating Income (Loss)	<u>(40,906,245)</u>	<u>(39,115,132)</u>	<u>(39,404,866)</u>
NON-OPERATING REVENUES (EXPENSES)			
State Appropriations	29,347,189	28,369,978	27,525,782
Federal Grants and Contracts	10,614,268	10,438,798	10,055,744
Gifts (including Endowment)	138,407	147,019	282,394
Capital Grants, Contracts, and Gifts	-	-	1,733,850
Investment Income	912,603	620,807	(7,090)
Other Non-Operating Expense	<u>(3,059,012)</u>	<u>(2,944,038)</u>	<u>(1,053,005)</u>
Total Non-Operating Revenues-Net	<u>37,953,455</u>	<u>36,632,564</u>	<u>38,537,675</u>
Increase (Decrease) in Net Position	<u>(2,952,790)</u>	<u>(2,482,568)</u>	<u>(867,191)</u>
Net Position-Beginning of Year	50,607,992	54,417,056	110,617,247
Prior Period Adjustments	-	<u>(1,326,496)</u>	<u>(55,333,000)</u>
Net Position-Beginning of Year, as Restated	<u>50,607,992</u>	<u>53,090,560</u>	<u>55,284,247</u>
Net Position-End of Year	<u>\$ 47,655,202</u>	<u>\$ 50,607,992</u>	<u>\$ 54,417,056</u>

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

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 9.8% in fiscal year 2017. The increase was due to an average tuition rate increase of approximately by 4.9% for undergraduate and graduate tuition and \$1 per hour increase to technology fee.



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. Auxiliary revenue increased 13.2%.

Grants and contracts revenue (operating) increased 23% as a result of additional federal and other grants and contracts.

Athletic revenue increased by \$428,710 due to increase in external fund raising and contributions.

Operating expenses increased by \$8.8 million. Each category is discussed in detail on page eight.

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. The gifts reported in the University are additions to existing University endowments.

Investment income increased 47% during the fiscal year primarily due to favorable market rates.

Operating Expenses by Functional Classification

	2017	2016	2015
Instruction	\$ 38,190,684	\$ 34,957,871	\$ 34,240,527
Research & Public Service	5,410,471	5,869,436	4,829,964
Academic Support	5,026,041	5,100,298	4,158,122
Student Services	8,170,958	7,484,146	6,952,185
Institutional Support	13,459,236	13,312,032	12,266,178
Operation & Maintenance of Plant	9,715,979	9,087,887	9,703,952
Depreciation	5,692,411	5,564,420	4,162,437
Scholarships & Related Expenses	7,413,703	5,788,646	8,505,360
Auxiliary Activities	17,473,988	14,616,820	12,393,623
	<u><u>\$ 110,553,471</u></u>	<u><u>\$ 101,781,556</u></u>	<u><u>\$ 97,212,348</u></u>

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.

Instruction expenditures increased 9.2% due to replacing vacant positions that were derived from prior years early retirement incentive and cost of living adjustment of 3%.

Research & Public Service expenditures decreased 7.8% due to reduction in certain grant expenditures.

Student services expenditures increased 9.2% due to replacing vacant positions that were derived from prior years early retirement incentive and cost of living adjustment of 3%.

Operation and maintenance of plant increased 6.9% due to increased project cost for current year maintenance items.

Auxiliary expenditures increased 19.5% due to increased volume of food services and one-time expenditure for application of Division I status in to the Atlantic Sun Conference at approximately \$1.8 million.

Operating Expenses by Natural Classification

	2017	2016	2015
Salaries	\$ 50,597,140	\$ 46,303,072	\$ 46,182,467
Benefits	15,514,285	15,898,484	14,754,746
Supplies & Other	22,145,853	19,381,654	16,856,220
Utilities	3,783,519	3,808,429	3,655,206
Plant & Equipment	5,563,104	4,823,860	3,483,067
Financial Aid	7,257,159	6,001,637	8,118,205
Depreciation	5,692,411	5,564,420	4,162,437
Total	<u><u>\$ 110,553,471</u></u>	<u><u>\$ 101,781,556</u></u>	<u><u>\$ 97,212,348</u></u>

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

Salaries expense increased 9.3% due to replacing vacant positions that were derived from prior years early retirement incentive and a cost of living adjustment of 3%.

Supplies and other expenses increased 14.2% due to one-time expenditure for Division I application and increased operating expenditures.

Plant and equipment increased 15.3% due to expenditures in current year for maintenance projects and increased number of deferred maintenance projects completed.

Financial aid increased 20.9% due to an increase in scholarship expense and adjustments for scholarship allowance.

Statement of Cash flows

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash Provided (Used) By:			
Operating Activities	\$ (31,834,738)	\$ (28,814,941)	\$ (33,041,581)
Non-capital Financing Activities	40,176,815	38,740,672	37,281,634
Capital and Related Financing Activities	(10,249,362)	(5,509,297)	(12,119,195)
Investing Activities	<u>785,371</u>	<u>(174,033)</u>	<u>(4,789,134)</u>
Net Increase (Decrease) in Cash	(1,121,914)	4,242,401	(12,668,276)
Cash, Beginning of Year	<u>39,894,843</u>	<u>35,652,442</u>	<u>48,320,718</u>
Cash, End of Year	<u><u>\$ 38,772,929</u></u>	<u><u>\$ 39,894,843</u></u>	<u><u>\$ 35,652,442</u></u>



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 in assessing 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.

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 and Grants are the primary sources of non-capital financing. Accounting standards require these sources 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

No new capital projects were completed and no new debt was issued in the current year.

Economic and Enrollment Factors That Will Affect the Future

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

The University continues to monitor the economic climate of the State as budgeting plans are considered.

The Universities overall enrollment has stabilized. The University continues to explore solutions for increasing enrollment, particularly in the area of retention. A long-term strategy for enrollment management is currently in development which will include the desired overall student enrollment.



University of North Alabama
Management's Discussion and Analysis
September 30, 2017

STUDENT FALL ENROLLMENT DATA (head count)

	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %	2011 %
<i>Undergraduate</i>	6221 83%	6313 84%	6,092 86%	5,886 86%	5,993 86%	6,119 87%	6,185 86%
<i>Graduate</i>	1236 17%	1179 16%	986 14%	956 14%	938 14%	934 13%	997 14%
Total	7,457	7,492	7,078	6,842	6,931	7,053	7,182
FALL ENROLLMENT BREAKDOWN							
<i>Graduate</i>	1236 17%	1179 16%	986 14%	956 14%	938 14%	934 13%	997 14%
<i>Seniors</i>	1562 21%	1575 21%	1,571 22%	1,387 20%	1,495 22%	1,423 20%	1,394 19%
<i>Juniors</i>	1277 17%	1262 17%	1,206 17%	1,129 17%	1,179 17%	1,278 18%	1,248 17%
<i>Sophomores</i>	1201 16%	1163 16%	1,097 15%	1,209 18%	1,126 16%	1,161 16%	1,262 18%
<i>Freshmen</i>	1681 23%	1755 23%	1,673 24%	1,591 23%	1,620 23%	1,695 24%	1,718 24%
<i>Special *</i>	500 7%	558 7%	545 8%	570 8%	573 8%	562 8%	563 8%
<i>In-State</i>	5774 77%	5797 77%	5,537 78%	5,352 78%	5,493 79%	5,604 79%	5,508 77%
<i>International</i>	381 5%	401 5%	308 4%	413 6%	408 6%	476 7%	362 5%
<i>Out-of-State</i>	1302 17%	1294 17%	1,233 17%	1,077 16%	1,030 15%	973 14%	1,312 18%
<i>Full-Time</i>	5505 74%	5515 74%	5,304 75%	4,924 72%	5,122 74%	5,233 74%	5,214 73%
<i>Part-Time</i>	1952 26%	1977 26%	1,774 25%	1,918 28%	1,809 26%	1,820 26%	1,968 27%
<i>Female</i>	4409 59%	4435 59%	4,165 59%	3,969 58%	4,016 58%	4,096 58%	4,098 57%
<i>Male</i>	3048 41%	3057 41%	2,913 41%	2,873 42%	2,915 42%	2,957 42%	3,084 43%
<i>Not-Reported</i>							1 —
<i>White</i>	5296 71%	5281 70%	4,985 70%	4,867 71%	4,993 72%	5,164 73%	5,188 72%
<i>Black</i>	1045 14%	1011 13%	945 13%	869 13%	888 13%	896 13%	848 12%
<i>Other</i>	1116 15%	1200 16%	1,148 16%	1,106 16%	1,050 15%	993 14%	1,146 16%

* Special includes all Non-classified, ESL and Postbaccalaureate

University of North Alabama
Statement of Net Position
September 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 38,772,929
Short-Term Investments	3,770,275
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$873,034	8,022,868
Inventories	20,434
Perkins Loan Receivable-Current Portion	77,042
Stadium Use Agreement-Current Portion	44,773
Prepaid Expenses and Unearned Scholarships	<u>8,940,376</u>

Total Current Assets	<u>59,648,697</u>
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Non-Current Assets

Deposit with Trustee	381
Long-Term Investments	11,247,820
Perkins Loan Receivable	237,978
Stadium Use Agreement	46,899

Capital Assets:

Land	3,835,429
Improvements Other Than Buildings	12,804,758
Buildings	185,694,907
Software	7,615,055
Equipment and Furniture	8,212,518
Library Holdings	16,013,501
Construction in Progress	4,317,980
Less: Accumulated Depreciation	<u>(91,373,789)</u>

Total Capital Assets, Net of Deprecation	<u>147,120,359</u>
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Total Non-Current Assets	<u>158,653,437</u>
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Total Assets	<u>\$ 218,302,134</u>
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DEFERRED OUTFLOWS OF RESOURCES

Deferred Outflows of Resources Related to Pensions	12,486,999
Loss on Bond Defeasance	<u>336,096</u>

Total Deferred Outflows of Resources	<u>\$ 12,823,095</u>
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The accompanying notes are an integral part of these financial statements.

University of North Alabama
Statement of Net Position
September 30, 2017

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Liabilities	\$ 7,818,943
Unearned Revenue	28,166,310
Deposit Liabilities	628,984
Bonds Payable-Current Portion	1,705,382
Compensated Absences-Current Portion	<u>154,333</u>

Total Current Liabilities 38,473,952

Non-Current Liabilities

Bonds Payable	72,875,431
Net Pension Liability	68,452,000
Compensated Absences	<u>1,292,779</u>

Total Non-Current Liabilities 142,620,210

Total Liabilities \$ 181,094,162

DEFERRED INFLOWS OF RESOURCES

Deferred Inflows of Resources Related to Pensions \$ 2,375,865

NET POSITION

Net Investment in Capital Assets	72,875,642
Restricted:	
Nonexpendable	3,992,641
Expendable:	
Scholarships and Instruction	5,954,124
Loans	314,173
Unrestricted Deficit	<u>(35,481,378)</u>

Total Net Position \$ 47,655,202

The accompanying notes are an integral part of these financial statements.

University of North Alabama Foundation
Discretely Presented Component Unit
Statement of Financial Position
September 30, 2017

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 9,280,411
Accounts Receivable	200
Pledges Receivable – Current	2,448,872
Inventories	8,752
Interest Receivable	<u>11,331</u>

Total Current Assets 11,749,566

Long-Term Investments

Restricted Certificates of Deposit for Long Term Investments	511,041
Investments	<u>27,631,365</u>

Total Investments 28,142,406

Fixed Assets

Donated Artifacts and Collectibles	98,650
Furniture and Equipment	<u>24,364</u>
	123,014
Less: Accumulated Depreciation	<u>(24,364)</u>

Total Fixed Assets 98,650

Other Assets

Pledges Receivable – Non-Current	<u>1,479,595</u>
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Total Other Assets 1,479,595

Total Assets \$ 41,470,217

The accompanying notes are an integral part of these financial statements.

University of North Alabama Foundation
Discretely Presented Component Unit
Statement of Financial Position
September 30, 2017

LIABILITIES AND NET ASSETS

Current Liabilities

Accounts Payable	\$ 1,485,758
Obligations to Beneficiaries under Split-Interest Agreements – Current	<u>78,211</u>

Total Current Liabilities 1,563,969

Non–Current Liabilities

Obligations to Beneficiaries under Split-Interest Agreements – Non-Current	<u>327,702</u>
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Total Non–Current Liabilities 327,702

Total Liabilities 1,891,671

Net Assets

Unrestricted	846,875
Temporarily Restricted	15,619,991
Permanently Restricted	<u>23,111,680</u>

Total Net Assets 39,578,546

Total Liabilities and Net Assets \$ 41,470,217

The accompanying notes are an integral part of these financial statements.

University of North Alabama
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2017

OPERATING REVENUES

Student Tuition and Fees (Net of Scholarship Allowances of \$17,347,326)	\$ 43,561,591
Federal Grants and Contracts	1,842,173
State and Local Grants and Contracts	2,931,596
Nongovernmental Grants and Contracts	1,320,411
Auxiliary Enterprises (Net of Allowances of \$107,137)	16,890,635
Athletic Revenue	1,491,860
Other Operating Revenue	<u>1,608,960</u>
Total Operating Revenues	<u>69,647,226</u>

OPERATING EXPENSES

Instruction	38,190,684
Research	107,290
Public Service	5,303,181
Academic Support	5,026,041
Student Services	8,170,958
Institutional Support	13,459,236
Operation and Maintenance	9,715,979
Scholarships and Financial Aid	7,413,703
Depreciation	5,692,411
Auxiliary Enterprises	<u>17,473,988</u>
Total Operating Expenses	<u>110,553,471</u>
Operating Loss	<u>(40,906,245)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	29,347,189
Federal Grants	10,614,268
Investment Income - Net	912,603
Interest on Debt	(3,012,813)
Other Nonoperating Revenue (Expenses)	<u>(46,199)</u>
Net Nonoperating Revenues	<u>37,815,048</u>
Loss before Other Changes in Net Position	(3,091,197)

The accompanying notes are an integral part of these financial statements.

University of North Alabama
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2017

OTHER CHANGES IN NET POSITION

Additions to Permanent Endowments	<u>138,407</u>
Change In Net Position	<u>(2,952,790)</u>
Net Position - Beginning of Year	50,607,992
Net Position - End of Year	<u>\$ 47,655,202</u>

The accompanying notes are an integral part of these financial statements.

University of North Alabama
Discretely Presented Component Unit
Statement of Activities and Changes in Net Assets
For the Year Ended September 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND SUPPORT				
<u>Support</u>				
Contributions	\$ 558,006	\$ 3,432,837	\$ 488,962	\$ 4,479,805
In-Kind Donations	996,838	22,129	-	1,018,967
Other Income	125,338	627,021	-	752,359
Transfers	(369,658)	562,338	(192,680)	-
Net Assets Released from Restrictions	<u>3,908,783</u>	<u>(3,851,359)</u>	<u>(57,424)</u>	<u>-</u>
Total Support	5,219,307	792,966	238,858	6,251,131
<u>Revenue</u>				
Interest Income	6,911	68,978	-	75,889
Investment Return	<u>-</u>	<u>2,407,288</u>	<u>-</u>	<u>2,407,288</u>
Total Revenue	<u>6,911</u>	<u>2,476,266</u>	<u>-</u>	<u>2,483,177</u>
Total Support and Revenue	5,226,218	3,269,232	238,858	8,734,308
EXPENSES				
Program Services	3,553,111	-	-	3,553,111
Management and General	1,209,805	-	-	1,209,805
Fundraising Expenses	<u>558,200</u>	<u>-</u>	<u>-</u>	<u>558,200</u>
Total Expenses	<u>5,321,116</u>	<u>-</u>	<u>-</u>	<u>5,321,116</u>
Change in Net Assets	(94,898)	3,269,232	238,858	3,413,192
Net Assets at Beginning of Year, Original	941,773	12,397,759	22,972,822	36,312,354
Prior Period Adjustment	<u>-</u>	<u>(47,000)</u>	<u>(100,000)</u>	<u>(147,000)</u>
Net Assets at Beginning of Year, Restated	<u>941,773</u>	<u>12,350,759</u>	<u>22,872,822</u>	<u>36,165,354</u>
Net Assets at End of Year	<u>\$ 846,875</u>	<u>\$15,619,991</u>	<u>\$23,111,680</u>	<u>\$39,578,546</u>

The accompanying notes are an integral part of these financial statement

University of North Alabama
Statement of Cash Flows
For the Year Ended September 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 43,778,054
Federal Grants and Contracts	1,487,529
State and Local Grants and Contracts	2,938,431
Nongovernmental Grants and Contracts	1,320,411
Sales and Services of Educational Departments	16,890,635
Athletic Income	1,491,860
Other Operating Revenues	1,608,960
Payments to Employees	(48,203,349)
Payments for Benefits	(16,043,164)
Payments to Suppliers	(25,845,055)
Payments to Utilities	(3,831,189)
Payments for Scholarships	<u>(7,427,861)</u>
Net Cash Used in Operating Activities	<u>(31,834,738)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	29,347,189
Federal Grants and Contracts	10,614,268
Gifts and Grants Received for Other Than Capital Purposes	138,407
Direct and Other Loan Receipts	32,751,777
Direct and Other Loan Disbursements	(32,665,658)
Deposit Liabilities	11,979
Other Nonoperating Revenues/Expenditures	<u>(21,147)</u>
Net Cash Provided by Noncapital Financing Activities	<u>40,176,815</u>

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

Stadium Use Agreement Principal	42,742
Purchases of Capital Assets	(5,611,173)
Deposits with Trustees	(326)
Principal Paid on Capital Debt	(1,550,000)
Interest Paid on Capital Debt	<u>(3,130,605)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(10,249,362)</u>

The accompanying notes are an integral part of these financial statements.

University of North Alabama
Statement of Cash Flows
For the Year Ended September 30, 2017

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from Sales and Maturities of Investments	910,094
Purchase of Investments	(542,600)
Interest on Investments	<u>417,877</u>
Net Cash Provided by Investing Activities	<u>785,371</u>

Net Decrease in Cash and Cash Equivalents	(1,121,914)
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Cash and Cash Equivalents - Beginning of Year	<u>39,894,843</u>
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Cash and Cash Equivalents - End of Year	<u><u>\$ 38,772,929</u></u>
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**RECONCILIATION OF NET OPERATING LOSS TO
NET CASH USED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (40,906,245)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:	
Depreciation Expense	5,692,411
Changes in Assets and Liabilities:	
Increase in Receivables	(450,712)
Decrease in Prepaid Expenses	524,349
Decrease in Inventory	6,664
Increase in Accounts Payable and Accrued Expenses	635,520
Increase in Pension Related Deferrals and Liabilities	2,324,179
Increase in Deferred Revenue	319,366
Increase in Compensated Absences	<u>19,730</u>
Net Cash Used by Operating Activities	<u><u>\$ (31,834,738)</u></u>

SUPPLEMENTAL CASH FLOW INFORMATION:

Interest Cost Capitalized on Construction-In-Progress	<u><u>\$ 112,580</u></u>
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The accompanying notes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of University of North Alabama (the “University” or “UNA”) 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 University of North Alabama are described below.

Reporting Entity

The University of North Alabama, a publicly supported, state funded institution, is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement No. 14, *The Financial Reporting Entity*, states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama and the Governor appoints the University of North Alabama’s Board of Trustees. In addition, the University receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on these criteria, the University of North Alabama is considered for financial reporting purposes to be a component unit of the State of Alabama.

During the fiscal year ended 2005, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This statement provides criteria for determining whether organizations for which a government is not financially accountable, should be reported as component units. Because of the significance of the relationship between the University and the University of North Alabama Foundation (the “Foundation” or “UNAF”), the University has determined UNAF to be a discrete component unit under GASB 39 and, therefore, has included the UNA Foundation statements in this report..

University of North Alabama Foundation, Inc. is a legally separate, tax-exempt organization that 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 UNAF, UNAF is considered a component unit of the University. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should be discretely presented as component units. These criteria are:

- The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

- The primary government, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
- The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Although the University does not control the timing or amount of receipts from UNAF, the majority of resources, or income thereon that UNAF holds and invests are restricted to the activities of the University by the donors.

UNAF is a not-for-profit organization that reports its financial results under the Financial Accounting Standard Board (FASB) Statements. Most significant to UNAF's operations and reporting model is Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria presentation features. No modifications have been made to UNAF's financial information in the University's financial reporting entity for these differences; however, significant note disclosures to the Foundation's financial statements have been incorporated into the University's notes to the financial statements. Financial statements for UNAF may be obtained by writing to the University at UNA Box 5113, Florence, Alabama 35632.

Financial Statement Presentation, Measurement Focus, and Basis of Accounting

For financial reporting purposes, the University adheres to the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis-for State and Local Governments* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis-for Public Colleges and Universities-an amendment of GASB Statement No. 34*, GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported and Assets and Liabilities*. These statements establish standards for external financial reporting for public colleges and universities on an entity-wide perspective and require that resources be classified in three net position categories.

Net Investment in Capital Assets - 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 position subject to externally imposed stipulations that it be maintained permanently by the University. Such net position would include permanent endowment funds.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

Expendable - Net position whose use by the University is subject to externally imposed stipulations that can be fulfilled by actions of the University pursuant to those stipulations or that expire by the passage of time. These include funds held in federal loan programs.

Unrestricted - Net positions that are not subject to externally imposed stipulations. These may be designated for specific purposes by action of management or the Board of Trustees.

GASB Statements No. 35 and No. 63 also require three statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

The University has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. GASB Statement No. 68 revises existing standards for employer financial statements and requires the recognition of a liability equal to the net pension obligation for pension plans provided by the University to its employees. The net pension obligation is measured as the total pension liability, less the amount of the pension plan's fiduciary net position. The total pension liability is determined based upon discounting projected benefit payments based on the benefit terms and legal agreements existing at the pension plan's fiscal year end. Projected benefit payments are required to be discounted using a single rate that reflects the expected rate of return on investments, to the extent that plan assets are available to pay benefits, and a tax-exempt, high-quality municipal bond rate when plan assets are not available. This Statement requires that most changes in the net pension liability be included in pension expense in the period of the change.

GASB Statement No. 71 is a clarification to GASB Statement No. 68 requiring recognition of a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. These statements also enhance accountability and transparency through revised note disclosures and required supplementary information (RSI).

The financial statements of the University have been prepared on the accrual basis of accounting and in accordance with accounting standards of the United States of America. The University reports as a Business Type Activity (BTA) as defined by GASB Statement No. 35. BTAs are those institutions that are financed in whole or in part by fees charged to external parties for goods or services. Under BTA reporting, it is required that statements be prepared using the economic resources measurement focus.

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 position are available.

GASB Statement No. 35 requires the recording of depreciation on capital assets, accrual or deferral of revenue associated with certain grants and contracts, accrual of interest expense, accounting for certain scholarship allowances as a reduction of revenue, classification of federal refundable loans as a liability, and capitalization and depreciation of equipment.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position

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

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

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

Investments with readily marketable fair values are reported at fair value in the Statement of Net Position, with all net realized and unrealized gains and losses reflected in the Statement of Revenues, Expenses and Changes in Net Position. Fair value of these investments is based on quoted market prices or dealer quotes where available.

The University uses Net Asset Value (NAV), under GASB Statement No. 72, reported by the investment managers as a practical expedient to estimate fair value for certain investments. The NAV is applied to certain investments that do not have readily determinable fair values. As these investments are not readily marketable, the estimated value is subject to uncertainty, and therefore, may differ from the value that would have been used had a ready market for the investments existed. While these investments may contain varying degrees of risk, the University's risk with respect to such transactions is limited to its capital balance in each investment and the amounts of unfunded commitments.

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

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

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

Capital Assets - Capital assets with a unit cost of over \$5,000 and an estimated useful life in excess of one year, and all library books, are recorded at historical cost. In addition, works of art and historical treasures and similar assets are recorded at their historical cost. Donated capital assets are recorded at fair market value at the date of donation. Land and Construction in Progress are the only capital assets that are not depreciated.

Depreciation is not allocated to functional expense categories. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are completed.

The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. Interest cost capitalized on construction work-in-progress was \$112,580 for the fiscal year ended September 30, 2017. Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. The method of depreciation and useful lives of the capital assets are as follows:

<u>Assets</u>	<u>Depreciation Method</u>	<u>Useful Lives</u>
Buildings and Improvements	Straight-Line	25-50 years
Improvements other than Buildings	Straight-Line	25 years
Equipment	Straight-Line	5-10 years
Library Materials	Composite	10 years
Capitalized Software	Straight-Line	10 years

Depreciation expense for the fiscal year ended September 30, 2017 was \$5,692,411.

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

Compensated Absences - The Board of Trustees determines annual and sick leave policies for the University's employees. No liability is recorded for sick leave. Staff and department-head employees earn and accumulate annual leave at the following rates:

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

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

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

Prepaid Expenses and Unearned Scholarships – Prepaid expenses are composed predominantly of financial obligations for food services. Unearned scholarship expense results from the Fall academic term spanning across the fiscal year end. The University prorates scholarship expense to recognize only the amounts incurred in each fiscal year.

Unearned Revenue - Unearned revenue consists primarily of amounts received in advance of an event, such as student tuition and fees, and advance ticket sales related to the next fiscal year.

Fall term tuition and fees and corresponding expenses relating to the portion of the term that is within the current fiscal year are recognized as tuition revenue and operating expense. The portion of sessions falling into the next fiscal year are recorded as unearned revenue in the statement of net position and will be recognized in the following fiscal year.

Pensions - The Teachers' Retirement System of Alabama (the Plan) financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value.

Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative*

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), and the Office of Management and Budget (OMB) Compliance Supplement.

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

Deferred Outflows of Resources – Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net position by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

Deferred Inflows of Resources – Deferred inflows of resources are reported in the statement of net position. Deferred inflows of resources are defined as an acquisition of net position by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

Classification of Revenues

The University has classified its revenues as either operating or nonoperating according to the following criteria:

- ***Operating Revenues*** - Operating revenues include activities that have the characteristics of exchange transactions, such as student tuition and fees, net of scholarship discounts and allowances, sales and services of auxiliary enterprises, net of scholarship discounts and allowances, most federal, state, local, private grants and contracts and federal appropriations, and interest on institutional student loans.
- ***Nonoperating Revenues*** - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues. In accordance with GASB Statement No. 35, certain significant revenues on which the University relies to support its operational mission are required to be recorded as nonoperating revenues. These revenues include state appropriations, private gifts, federal Pell grants and investment income, including realized and unrealized gains and losses on investments.

Grants and Contracts Revenue – The University receives sponsored funding from governmental and private sources. Revenues from these projects are recognized in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, based on the terms of the individual grant or contract. Pell grants are recorded as nonoperating revenues in the accompanying Statements of Revenues, Expenses and Changes in Net Position.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

Auxiliary Revenues – Sales and services of auxiliary enterprises primarily consist of revenues generated by athletics, bookstore, housing, dining, printing and telecommunications, which are substantially self-supporting activities that primarily provide services to students, faculty, administrative and professional employees and staff.

Donor Pledges – The University normally does not receive gift pledges. Pledged revenue representing unconditional promises to give is normally received by The University of North Alabama Foundation and later disbursed in accordance with the donors' wishes for the benefit of the University. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

NOTE 2 – DEPOSITS AND INVESTMENTS

Cash and Deposits

The University's non-operating 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 position classification "cash and cash equivalents" includes all readily available cash such as petty cash, demand deposits, and certificates of deposits with maturities of three months or less.

Investments

The University's investment policies and procedures separate investments into two categories: Operational Fund Investments consisting of relatively short-term investments; and Permanent Fund Investments consisting of longer term investments. The methods and significant assumptions used to estimate the fair value of investments mirrors that of the UNAF (See Note 16).

A. Operational Fund Investments

1. *General Policy*: Operational Fund Investments (which may be pooled) are applicable to the following fund groups – Current Funds, Loan Funds, and Agency Funds.
2. *Investment Objectives*: The Board's investment objective for Operational Fund Investments is to maximize current investment returns consistent with the liquidity needs of the

University and to protect principal from value decline due to investment losses or inflation. It is expected that the maturities of the investments in the Operational Fund will be matched against the cash flow needs of the University to maximize yields consistent with the liquidity needs of the University and consistent with economic projections.

3. *Responsibility:* The Board assigns to the University President the responsibility for direct investment and administration of Operational Fund Investments. The President may choose to delegate investment responsibilities to University employee(s), a committee of University employees, or to arrange for outside investment management. The responsible investment authority shall monitor the Operational Funds to ensure that these investment objectives are met.
4. *Investment Criteria:* Investments of Operational Funds shall be limited to the following marketable securities:
 - a. Direct obligations of the United States of America or obligations unconditionally guaranteed as to principal and interest by the United States of America.
 - b. Obligations of an agency or instrumentality of the United States of America.
 - c. Commercial paper of corporate issues with a minimum quality rating of P-1 by Moody's or A-1 by Standard & Poor's. No more than 5% of the Operational Fund Investments of the University shall be invested in a single corporation.
 - d. Repurchase agreements secured by the United States of America or its agencies or "AAA" rated corporate obligations.
 - e. Shared in externally managed money-market funds specifically approved by the President or the Board.
 - f. Negotiable fixed rate or variable rate certificates of deposit with commercial banks or savings and loan associations chartered by the U.S. government or the State of Alabama, and secured as set out below.
 - g. Bankers acceptances of U.S. banks or savings and loan associations, and secured as set out below.

The majority of Operational Fund Investments shall be consistent with liquidity requirements of the funds in this category. However, funds established under certain debt instruments may be invested in accordance with the applicable criteria. Investments in commercial bank or savings and loan association certificates of deposit or bankers' acceptances must always be secured by a pledge of bonds or the obligation of either the United States, or the State of Alabama, or a public agency or public institution of higher learning in Alabama or a municipal or county government within Alabama. Obligations of other states may be acceptable if they are rated "AAA" and/or insured.

B. Permanent Fund Investments (Restricted Nonexpendable)

The Board of Trustees has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the University classifies as restricted nonexpendable (a) the

original value of gifts donated to the permanent endowment and, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as restricted nonexpendable is classified as restricted expendable until those amounts are appropriated for expenditure by the University in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the University 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. 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. Any net appreciation that is spent is required to be spent for the purposes for which the endowment was established. The Board approved a spending rate for the fiscal years ending September 30, 2017 of 3.0%-5.0%, which is based on a rolling three-year period.

1. *General Policy:* Permanent Fund Investments are applicable to the following fund groups:
 - a. Endowment (including Quasi-endowment and Term endowment)
 - b. Life Income or Annuity Funds managed by the University where the principal will eventually become the fee simple absolute property of the University.
2. *Investment Objectives*
 - a. The Board of Trustees for the University of North Alabama, through its President, is charged with fiduciary responsibility of growing the value of the endowment, thereby sustaining its ability to generate financial support to further the mission of the University. As a part of a commitment to long-range financial equilibrium, the Board adopts the Board objective of investing endowment assets so as to enhance the purchasing power or endowment income as to keep pace with inflation and evolving University needs. The Board's investment objective for the Permanent Fund Investments is to maximize investment returns consistent with liquidity needs of the University and to protect principal from decline in value due to investment losses or inflation.
 - b. The Board seeks superior investment returns through professional management, but not by assuming imprudent risks.
 - c. The primary long-term financial objective for the endowment is to grow the real (inflation-adjusted) purchasing power of endowment assets and income, after accounting for endowment spending, inflation, and costs or portfolio management.
 - d. It is the Board's general policy to pool endowment resources whenever possible. There are, however, occasional holdings that must be kept in non-pooled accounts.

3. *Investment Responsibility*: The Board assigns to the University President the responsibility for direct investment and the administration of Permanent Fund Investments. The President

may choose to delegate investment responsibilities to University employee(s), a committee of University employees, or to arrange for outside investment management. The responsible investment authority shall monitor the Permanent Fund Investments to ensure that the above investment objectives are being met.

4. *Asset Allocation*: Permanent Fund Investments (including approved mutual funds) shall have target allocations and normal ranges in accordance with University policy.

5. *Investment Criteria*

- a. Fixed Income Investments - The criteria for cash or cash equivalent investments with Permanent Funds shall be the same as for Operational Funds. With the exception of High Yield, all fixed income securities must have at least an "A" rating by Moody's or Standard & Poor's at the time of purchase. Call protection should be emphasized to assure stable and current income. Shares in externally managed fixed income funds may only be purchased with prior approval by the President or the Board. No more than 10% of fixed income investments (except for cash or cash equivalents secured as required herein) shall be invested in one industry, nor shall one bond issue exceed 5% of total fund portfolio. (This limitation does not apply to U.S. government obligations.)
- b. Equity Investments - Equity investments must 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. The aggregate investment in the equity securities or any one issuing corporation shall not exceed 1% of the outstanding capital of that corporation. Shares in externally managed equity mutual funds may only be purchased with prior approval of the President or Board. "No load" funds with excellent earnings and growth history are preferred.
- c. Alternative Investments - Alternative investments may consist of, but are not limited to, hedge funds, private equity, venture capital, limited partnerships, futures, commodities, and derivative investments. Further, any asset investment that requires liquidity beyond five months will also be considered an alternative investment. The suggested range for this asset class is 0-35% of the aggregate portfolio. Real estate and oil and gas investments from Permanent Funds shall not be made without express prior approval of the Board.

- C. Prohibited Transactions - Under no circumstances shall there be any investment activity whatsoever with University funds in the following types of transactions:

1. Unregistered or restricted Stock
2. Foreign securities not traded on U.S. or NASDAQ exchange
3. Initial public offerings (must have two-year trading history)
4. Uncovered options
5. Margin trading

D. Reporting and Performance Measurement

1. *Reporting*: Internal and external investment managers shall report through the President to the Board no less than quarterly.
2. *Performance Standards for Operational Funds*: Current funds, loan funds, and agency funds are generally expected to be maintained largely in cash or cash equivalents. Generally, such funds should be invested or deposited to earn an annualized return equivalent to at least the average interest rate paid for the reporting period by commercial banks in the Shoals locality for one-year certificates of deposit in excess of \$100,000.00. Plant Funds should meet the performance standards required for the fixed income portion of the endowment.
3. *Performance Standards for Permanent Funds*: Manager performance will be evaluated according to the long-term asset allocation goals and guidelines specified in this policy.

- E. Social Responsibility - From time to time, the Board of Trustees or the President may exclude from eligibility for investment the equities or bonds of certain corporations because of social concerns over the policies or practices of those corporations.

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 as follows:

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 policies require that maturities of investments be matched against cash flow needs to minimize unnecessary risk.

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:

1. *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 policies require that at least 85% of market value of the total equity portfolio shall be stocks rated "B" or better by Standard & Poor's, with preference given to "Blue Chip" stocks. "No Load" funds with excellent earnings and growth history are preferred. All fixed income securities must have at least
2. "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.

3. *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 Deposits section.

4. *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 policies reduce risk of this type of loss. The policies require that equity investments be diversified so that no single issue shall exceed 5% nor shall any single industry exceed 10% of the market value of the total equity securities or any one issuing corporation. Shares in externally managed equity mutual funds may only be purchased with prior approval of the University President or Board. These same criteria apply to fixed income investments.

Under GASB Statement No. 72, investments are measured at fair value on a recurring basis. *Recurring* fair value measurements are those that Governmental Accounting Standards Board (GASB) Statements require or permit in the Statement of Net Position at the end of each reporting period. Fair value measurements are categorized based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments’ fair value measurements are as follows at September 30, 2017:

University of North Alabama
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For the Year Ended September 30, 2017

		<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
	<u>9/30/2017</u>	<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>
Investment by Fair Value Level				
Certificates of Deposit	\$ 2,212,224	\$ 2,212,224	\$ -	\$ -
Debt Securities				
Municipal Bonds	4,513,821	4,513,821	-	-
Government Agency Bonds	398,064	398,064		
Corporate Bonds	499,982	499,982	-	-
Total Debt Securities	5,411,867	5,411,867	-	-
Equity Securities				
Oil Industry	49,062	49,062		
Mutual Funds				
Pinco Short Term Instl CL	610,724	610,724	-	-
Eagle MLP Strategy FD I	272,582	272,582	-	-
Total Mutual Funds	883,306	883,306	-	-
Bond Funds				
Vanguard Total Bond Mkt Index Admiral Shr	574,853	574,853	-	-
Total Investments by Fair Value Level	\$ 9,131,312	\$ 9,131,312	\$ -	\$ -

GASB Statement No. 72 allows for the use of Net Asset Value (NAV) as a practical expedient for valuation purposes. The University invests in Limited Partnerships that use NAV in determining fair value are disclosed separately from the valuation hierarchy as follows:

Investments Measured at the Net Asset Value (NAV)

U.S. Equity Fund	\$ 1,957,391
International Equity Fund	837,367
Emerging Markets Fund	207,629
Hedged Equity Fund	2,036,094
Fixed Income Fund	619,943
Opportunistic Fund	47,128
Real Assets Fund	72,907
Private Equity Fund	108,324
Total Investments Measured at the NAV	<u>\$ 5,886,783</u>

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The total investments from the above schedules are as follows:

Total Investments by Fair Value Level	\$ 9,131,312
Total Investments Measured at the NAV	<u>5,886,783</u>
	<u>\$ 15,018,095</u>

These total investments are broken up on the statement of net position as follows:

Short-Term Investments	\$ 3,770,275
Long-Term Investments	<u>11,247,820</u>
	<u>\$ 15,018,095</u>

The debt, equity, bond fund, and mutual fund securities shown above are categorized as Level 1 and are valued based on prices quoted in active markets for those securities.

Unfunded commitments and liquidity disclosures for Limited Partnership investments measured using net asset value as of September 30, 2017, are as follows:

	Unfunded			
	Fair Value at	Commitments at	Redemption	Redemption Notice
	September 30, 2017	September 30, 2017	Frequency	Period
U.S. Equity Fund (a)	\$ 1,957,391	\$ -	Quarterly	60 Days
International Equity Fund (b)	837,367	-	Quarterly	60 Days
Emerging Markets Fund (c)	207,629	-	Annual	30 Days
Hedged Equity Fund (d)	2,036,094	-	Annual	90 Days
Fixed Income Fund (e)	619,943	-	Monthly	10 Days
Opportunistic Fund (f)	47,128	29,228	Annual	90 Days
Real Assets Fund (g)	72,907	280,000	Annual	90 Days
Private Equity Fund (h)	108,324	252,000	Annual	90 Days
Total	<u>\$ 5,886,783</u>	<u>\$ 561,228</u>		

- a) *U.S. Equity* – This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- b) *International Equity* – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- c) *Emerging Markets* – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in emerging foreign countries. Emerging

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For the Year Ended September 30, 2017

markets equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily consist of long-only investments and hedged equity investments (long and short).

- d) *Hedged Equity* – This category consists of funds of funds that make long and short position equity investments. The bulk of the investment is subject to semi-annual or annual redemption.
- e) *Fixed Income* – This category will generally consist of managers that invest primarily in debt securities of corporations and governmental entities.
- f) *Opportunistic*– This category may include any strategy that offers exceptional risk/reward opportunities. This category is designed to provide the Investment Committee with the flexibility to select investments for a relatively small part of an overall allocation, which may not fit into the other designed allocation categories.
- g) *Real Assets* – This category will generally consist of managers that invest in a diverse basket of tangible assets with built-in inflation protection characteristics. These investments will primarily be long-only.
- h) *Private Equity* – This category consists of partnerships that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.

At September 30, 2017, UNA had a significant amount invested in short and long term investments, primarily tax free bonds. During the year ended September 30, 2017, the University realized gains of \$3,252 from the disposal of investments. The calculation of realized gains is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments that had been held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year. The University had unrealized gains during the year ended September 30, 2017 of \$503,518.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

At September 30, 2017, the University's investments types and related maturities were comprised of the following:

Type of Investments	Maturity in Years				Total
	<1	1-5	6-10	>10	
Certificates of Deposit	750,550	1,461,674	-	-	\$ 2,212,224
Equity Securities					49,062
Debt Securities	3,019,725	2,392,142	-	-	5,411,867
Mutual Funds					883,306
Bond Funds					574,853
Limited Partnerships					5,886,783
Total University Investments					<u>\$ 15,018,095</u>

At September 30, 2017, the amount and credit rating of the University's debt securities was as follows:

	2017
Debt Securities	
Aaa	\$ 398,064
Aa2	150,594
Aa3	2,135,345
AA	103,871
A1	1,263,387
A2	860,624
A3	300,090
Baa3	199,892
	<u>\$5,411,867</u>

NOTE 3 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Transfers	Ending Balance
Capital Assets Not Being Depreciated:					
Land	\$ 3,835,429	\$ -	\$ -	\$ -	\$ 3,835,429
Construction in Progress	604,215	4,252,377	-	(538,612)	4,317,980
Total Capital Assets Not Being Depreciated	<u>4,439,644</u>	<u>4,252,377</u>	<u>-</u>	<u>(538,612)</u>	<u>8,153,409</u>
Capital Assets Being Depreciated:					
Improvements Other than Buildings	12,804,758	-	-	-	12,804,758
Buildings	184,422,584	733,711	-	538,612	185,694,907
Equipment	7,900,328	598,933	(286,743)	-	8,212,518
Software	7,615,055	-	-	-	7,615,055
Library Holdings	15,912,527	138,732	(37,758)	-	16,013,501
Total Capital Assets Being Depreciated	<u>228,655,252</u>	<u>1,471,376</u>	<u>(324,501)</u>	<u>538,612</u>	<u>230,340,739</u>
Less Accumulated Depreciation:					
Improvements Other than Buildings	7,878,546	399,637	-	-	8,278,183
Buildings	50,939,625	3,743,219	-	-	54,682,844
Equipment	5,522,243	507,042	(261,689)	-	5,767,596
Software	6,853,549	761,506	-	-	7,615,055
Library Holdings	14,786,861	281,007	(37,757)	-	15,030,111
Total Accumulated Depreciation	<u>85,980,824</u>	<u>5,692,411</u>	<u>(299,446)</u>	<u>-</u>	<u>91,373,789</u>
Total Capital Assets, Net	<u>\$ 147,114,072</u>	<u>\$ 31,342</u>	<u>\$ (25,055)</u>	<u>\$ -</u>	<u>\$ 147,120,359</u>

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

NOTE 4 - RECEIVABLES

Receivables are summarized as follows:

Accounts Receivable:

Federal and State Agencies	\$ 1,987,555
Third Party	1,794,137
Students	3,217,836
Other	1,896,374
Less: Allowance for Doubtful Accounts	<u>(873,034)</u>
Total Accounts Receivable, Net	<u>8,022,868</u>

Perkins Loan Receivables:

Current Perkins Loan Receivable	77,042
Noncurrent Perkins Loan Receivable	<u>237,978</u>
Total Perkins Loan Receivable	<u>315,020</u>
Total Receivables, Net	<u><u>\$ 8,337,888</u></u>

NOTE 5 - DEFINED BENEFIT PENSION PLAN

Plan Description

The Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act 419 of the Legislature of 1939 for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The plan is administered by the Retirement Systems of Alabama (RSA). Title 16-Chapter 25 of the Code of Alabama grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Benefits provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. Substantially all non-student employees are members of TRS. Membership is mandatory for eligible employees. During the 2012 regular session of the Alabama Legislature, Act 2012-377 created a new defined benefit plan tier for employees hired on or after January 1, 2013, with no previous creditable service referred to as "Tier 2". Employees hired or with creditable service prior to that date are "Tier 1" participants. Tier 1 TRS members who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) are entitled to an annual retirement benefit, payable monthly for life. Service and disability

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retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 1 members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of credible service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS are required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers, and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011, to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation. Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Participating employers' contractually required contribution rate for the year ended September 30, 2017 was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the University were \$5,028,999 for the year ended September 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2017 the University reported a liability of \$68,452,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016 and the total pension liability used to calculate the net pension liability was

University of North Alabama
Notes to the Financial Statements
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determined by an actuarial valuation as of September 30, 2015.

The University's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2016 the University's proportion was 0.632297%, which was a decrease of 0.007678% from its proportion measured as of September 30, 2015.

For the year ended September 30, 2017, the University recognized pension expense of \$7,360,894. At September 30, 2017 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,763,000
Changes of assumptions	4,833,000	-
Net difference between projected and actual earnings on pension plan investments	989,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,636,000	613,000
Employer contributions subsequent to the measurement date	5,028,999	-
	<u>\$ 12,486,999</u>	<u>\$ 2,376,000</u>

\$5,028,099 reported as deferred outflows of resources related to pensions resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2018	\$ 1,288,000
2019	1,288,000
2020	2,250,000
2021	65,000
2022	191,000
	<u>\$ 5,082,000</u>

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2015, with a measurement date of September 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	2.75%
Investment rate of return*	7.75%
Projected salary increases, including inflation	3.25% - 5.00%

*Net of pension plan investment expense

The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Post-Retirement mortality rates for service retirements and dependent beneficiaries were based on the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return*</u>
Fixed Income	17.00%	4.40%
U.S. Large Stocks	32.00%	8.00%
U.S. Mid Stocks	9.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash	<u>3.00%</u>	1.50%
Total	<u>100.00%</u>	

*Includes assumed rate of inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the

University of North Alabama
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difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following table presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease</u> <u>(6.75%)</u>	<u>Current Rate</u> <u>(7.75%)</u>	<u>1% Increases</u> <u>(8.75%)</u>
University's proportionate share of collective net pension liability	91,194,000	68,452,000	49,199,000

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2016. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017 on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2016 along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

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. The complete financial report for PEEHIP can be obtained on the

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PEEHIP website at <http://www.rsa-al.gov/PEEHIP/peehip.html> under the Trust Fund Financials tab.

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 <u>2017</u>
Individual Coverage - Non-Medicare Eligible	\$166
Individual Coverage - Medicare Eligible	\$ 25
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-spousal Dependent(s)	\$421
Family Coverage - Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependents with Non-Medicare Eligible Spouse	\$521
Family Coverage - Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$280
Family Coverage - Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$310
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$280
Family Coverage - Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – with Non-Medicare Eligible Spouse	\$380
Family Coverage - Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$139
Family Coverage - Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$169
Tobacco Surcharge	\$50
Wellness Premium	\$50
Surviving Spouse - Non-Medicare Eligible	\$816
Surviving Spouse - Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$1,028
Surviving Spouse - Non-Medicare Eligible and Dependent Medicare Eligible	\$1,067
Surviving Spouse - Medicare Eligible	\$430
Surviving Spouse - Medicare Eligible and Dependent Non-Medicare Eligible	\$720
Surviving Spouse - Medicare Eligible and Dependent Medicare Eligible	\$759

For employees that retired, other than for disability, on or after October 1, 2005 and before January 1, 2012, 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. Employees who retire on or after January 1, 2012, with less than 25 years of service are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will

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continue to be applied throughout retirement. These changes are being phased in over a 5 year period.

The University only pays premiums for retired employee's health insurance. The required contribution rate of the employer was \$341 per retired employee per month during the fiscal year ended September 30, 2017. The University paid \$1,545,253 in employer contributions for the fiscal year ended September 30, 2017. 100% of the required contributions were paid to PEEHIP. The required contribution rate is determined by PEEHIP in accordance with state statute. The following shows the required contributions in dollars and the percentage of that amount contributed for retirees:

<u>Fiscal Year Ended September 30,</u>	<u>Total Amount Paid Attributable to Retirees</u>	<u>Percentage of Required Amount Contributed</u>
2017	\$1,545,253	100%
2016	\$1,679,468	100%
2015	\$1,714,104	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, 2017, the University had been awarded approximately \$972,879 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.

As of September 30, 2017, the University is obligated under a contract for certain campus construction and renovations. The amounts under contract commitments total \$1,247,316 of which \$409,277 has been paid or accrued at September 30, 2017, leaving a remaining contract commitment of \$838,039.

NOTE 8 - ACCOUNTS PAYABLE

Accounts payable and accrued liabilities represent amounts due at September 30, 2017, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 2,454,480
Benefits	414,140
Interest Payable	1,511,750
Trade Payables to Vendors	<u>3,438,573</u>
Total Accounts Payable and Accrued Liabilities	<u>\$ 7,818,943</u>

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NOTE 9 – NON-CURRENT LIABILITIES

Non-Current Liability activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
2010A Revenue Bonds	\$ 6,730,000	\$ -	\$ (665,000)	\$ 6,065,000
2010B Build America Bonds	25,915,000	-	-	25,915,000
2012 Revenue Bonds	10,080,000	-	(360,000)	9,720,000
2014 Revenue Bonds	32,680,000	-	(525,000)	32,155,000
Total Bonds	<u>75,405,000</u>	<u>-</u>	<u>(1,550,000)</u>	<u>73,855,000</u>
2010A Bond Discount	(29,970)	-	1,240	(28,730)
2010B Bond Discount	(253,944)	-	10,508	(243,436)
2012 Bond Discount	(288,137)	-	15,232	(272,905)
2014 Bond Premium	1,318,246	-	(47,362)	1,270,884
Total Bonds, net	<u>76,151,195</u>	<u>-</u>	<u>(1,570,382)</u>	<u>74,580,813</u>
Other Liabilities:				
Net Pension Liability	66,978,000	1,474,000	-	68,452,000
Compensated Absences	<u>1,466,843</u>	<u>-</u>	<u>(19,731)</u>	<u>1,447,112</u>
Total	<u>\$ 144,596,038</u>	<u>\$ 1,474,000</u>	<u>\$ (1,590,113)</u>	<u>\$ 144,479,925</u>
Less: Current Portion of:				
Bonds Payable	(1,550,000)			(1,685,000)
Bond Discounts	26,980			26,980
Bond Premium	(47,362)			(47,362)
Compensated Absences	<u>(141,913)</u>			<u>(154,333)</u>
Total Current Portion	<u>(1,712,295)</u>			<u>(1,859,715)</u>
Total Non-Current Portion	<u>\$ 142,883,743</u>			<u>\$ 142,620,210</u>

The Series 2014 general fee revenue bonds were issued in 2014 by the Board of Trustees to provide funds for the acquiring and construction of new dormitories on the University's campus. These bonds were authorized in the original amount of \$32,680,000 with interest rates ranging from 2%-5% and a maturity date of November 2044.

The Series 2012 General Fee Revenue Build America Bonds were issued in 2012 by the Board of Trustees to refund the Series 2003 bonds, with the remainder of the proceeds of the bonds applied to the cost of acquiring and constructing the University Improvements. These bonds were authorized in the original amount of \$11,530,000 with an interest rate of 3.75% and a maturity date of November 2035. The current refunding of the Series 2003 bonds resulted in a cash flow savings with a net present value of \$402,698. This transaction met the requirements of a defeasance of the Series 2003 bonds.

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For the Year Ended September 30, 2017

The Series 2010A and B general fee revenue bonds were issued in 2010 by the Board of Trustees. The Series 2010A bonds were issued to refund the Series 1999A revenue bond. These bonds were authorized in the original amount of \$9,850,000 with interest rates ranging from 2%-4% and a maturity date of November 2035. The current refunding resulted in a cash flow savings with a net present value of \$164,908. This transaction met the requirements of a defeasance of the Series 1999A revenue bonds.

The Series 2010B Bonds were issued to provide funds for construction of a Science and Engineering Technology Facility and associated site improvements. These bonds were authorized in the original amount of \$25,915,000 with interest rates ranging from 5.75%-6.55% and a maturity date of November 2041. During the current fiscal year, the University received a 28.2% net subsidy based on the interest paid on these bonds.

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.

The University has prepaid bond insurance, bond discounts and a bond premium in connection with the issuance of its 2010A, 2010B, 2012 and 2014 Series Revenue Bonds. The prepaid insurance costs, bond discounts, and bond premium will be amortized as follows:

<u>Fiscal Year</u>	<u>Prepaid Insurance</u>	<u>Bond Discounts</u>	<u>Bond Premium</u>
2018	\$ 12,113	\$ 26,980	\$ 47,362
2019	9,954	26,980	47,362
2020	9,954	26,980	47,362
2021	9,954	26,980	47,362
2022	9,954	26,980	47,362
2023-2027	49,770	134,900	236,811
2028-2032	49,770	134,900	236,811
2033-2037	49,770	107,094	236,811
2038-2042	31,521	33,277	236,811
2043-2045	-	-	86,830
Totals	<u>\$ 232,760</u>	<u>\$ 545,071</u>	<u>\$ 1,270,884</u>

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Principal and interest maturity requirements on bond debt are as follows:

Fiscal Year	Principal	Interest	Totals
2018	\$ 1,685,000	\$ 3,021,284	\$ 4,706,284
2019	1,735,000	2,965,746	4,700,746
2020	1,810,000	2,896,407	4,706,407
2021	1,885,000	2,815,846	4,700,846
2022	1,975,000	2,730,214	4,705,214
2023-2027	11,325,000	12,304,363	23,629,363
2028-2032	13,935,000	9,849,238	23,784,238
2033-2037	17,150,000	6,645,240	23,795,240
2038-2042	18,485,000	2,564,897	21,049,897
2043-2045	3,870,000	161,288	4,031,288
Totals	<u>\$ 73,855,000</u>	<u>\$ 45,954,523</u>	<u>\$ 119,809,523</u>

Build America Bonds

The American Recovery and Reinvestment Act of 2009 authorized the issuance of Build America Bonds (BABs), whereby certain issuers are authorized to issue taxable bonds and receive an annual subsidy from the federal government on these bonds. During the 2011 fiscal year, the University issued BABs bonds in the amount of \$25,915,000. The proceeds were used to finance the acquisition and construction of a Science and Engineering Technology Facility. During the year ended September 30, 2017, the University received \$542,206 in interest subsidy payments

that are included in interest. The subsidies to be received by the University are reflected in the principal and interest maturity requirements above.

Pledged Revenues

The University has pledged general student tuition and fees revenues for the payment of debt service on the 2010A, 2010B, 2012 and 2014 Series Revenue Bonds. Future revenues in the amount of \$119,809,523 are pledged to repay principal and interest on the bonds at September 30, 2017. Pledged revenues in the amount of \$60,908,917 were received during the fiscal year ended September 30, 2017, with \$4,655,094 or 7.64% of pledged revenues being used to pay principal and interest during the fiscal year.

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

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operates as a common risk management and insurance program for state owned properties. The University pays an annual premium based on the amount of coverage requested.

The SIF provides coverage up to \$2 million per occurrence and is self-insured up to a maximum of \$6 million in aggregate claims. The SIF purchases commercial insurance for claims which in the aggregate exceed \$6 million. The University purchases commercial insurance for its automobile coverage, general liability, and professional legal liability coverage. In addition, the University has fidelity bonds on the University's President, Vice-President of Financial Affairs, as well as on all other University personnel who handle funds.

Employee health insurance is provided through the Public Education Employees' Health Insurance Fund (PEEHIF) administered by the Public Education Employees' Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining.

Monthly premiums for employee and dependent coverage are determined annually by the plan's actuary and 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 PEEHIF for each employee and this amount is applied against the employee's premiums for the coverage selected and the employee pays any remaining premium. Settled claims resulting from these risks have not exceeded the University's coverage in any of the past three fiscal years. Claims which occur as a result of employee job-related injuries may be brought before the State of Alabama Board of Adjustment. The Board of Adjustment serves as an arbitrator and its decision is binding. If the Board of Adjustment determines that a claim is valid, it decides the proper amount of compensation (subject to statutory limitations) and the funds are paid by the University.

NOTE 11 - SUBSEQUENT EVENTS

In preparing these financial statements, the University has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued.

NOTE 12 – UNEARNED REVENUE

Unearned revenue primarily includes tuition, room, and meal plan revenue related to the portion of the Fall semester subsequent to September 30, 2017, funding received for contracts and grants which has not been expended as of September 30, 2017, as well as athletic revenue related to games played subsequent to September 30, 2017.

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Unearned revenues at September 30, 2017 are as follows:

Tuition and Fees, Net	\$ 20,011,428
Federal, State, and Local Government Grants and Contracts	3,745,649
Auxiliary Revenues, Net	4,174,535
Athletic Revenue	88,747
Other Revenue	<u>145,951</u>
Total Unearned Revenue	<u>\$ 28,166,310</u>

NOTE 13 – RECENTLY ISSUED ACCOUNTING STANDARDS

In addition, the Governmental Accounting Standards Board (GASB) has approved the following:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (effective date of fiscal years beginning after June 15, 2017)
- Statement No. 81, *Irrevocable Split-Interest Agreements* (effective date of fiscal years beginning after December 15, 2016)
- Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No.73* (effective date of fiscal years beginning after June 15, 2016)
- Statement No. 83, *Certain Asset Retirement Obligations* (effective date of fiscal years beginning after June 15, 2018)
- Statement No. 84, *Fiduciary Activities* (effective date of fiscal years beginning after December 15, 2018)
- Statement No. 85, *Omnibus 2017* (effective date of fiscal years beginning after June 15, 2017)
- Statement No. 86, *Certain Debt Extinguishment Issues* (effective date of fiscal years beginning after June 15, 2017)
- Statement No. 87, *Leases* (effective date of fiscal years beginning after December 15, 2019)

When they become effective, application of these standards may restate portions of these financial statements. The University is currently evaluating the impact of these pronouncements on their financial statements.

NOTE 14 – RELATED PARTIES

The University of North Alabama Foundation (the Foundation) exists to assist the University. Due to the nature of this relationship, there are numerous transactions between the two entities and their representatives for program services, instruction, and scholarship purposes. At September 30, 2017, pledges receivable to the Foundation from the Alumni Association and University Board of Trustees/Foundation Board Members were \$73,300. The Foundation has payables to the University of \$1,286,663 at September 30, 2017. The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was \$22,844 for the year ending September 30, 2017. The Foundation employees are paid by the University. The salaries and benefits and supplies for year ending September 30, 2017, were \$931,493.

The Foundation has an affiliation agreement with the University of North Alabama Sportsman's Club. The Foundation has a pledge receivable from the Sportsman's Club of \$130,000 at September 30, 2017. The Foundation owes \$148,231 to the Sportsman's Club at September 30, 2017.

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

NOTE 15 – DIRECT LOAN PROGRAM

The Federal Direct Loan Program (DL) enables an eligible student or parent to obtain a loan directly through the Department of Education. Under DL, files are transmitted via the Federal Common Originator and Disbursement System (COD). Funds are received via G5, a federal website. The Department of Education is responsible for the collection of these loans. The University disbursed approximately \$33 million under these programs during the fiscal year ended September 30, 2017.

NOTE 16 – UNIVERSITY OF NORTH ALABAMA FOUNDATION NOTES TO THE FINANCIAL STATEMENTS

Organization and Summary of Significant Accounting Policies

Organization

The University of North Alabama Foundation (the Foundation) was established to provide support for the private fundraising efforts of the University of North Alabama (the University) and to manage privately donated funds. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of Alabama and governed by a volunteer Board of Directors (Board). The Foundation is a component unit of the University.

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The private fundraising efforts of the University and the Foundation result in the Foundation receiving contributions for the benefit of the University. Contributions are either available to be used currently or restricted as an endowment to be invested in perpetuity and provide support from investment returns for student scholarships, faculty and research support, other operational support, and for facilities and equipment. Fundraising efforts also result in the creation of charitable trusts and gift annuities. When the trusts and annuities mature, the remainder interests are available for the designated purposes as current-use or endowment gifts. The Foundation is the trustee for substantially all of the charitable remainder trusts. The Foundation also receives unrestricted contributions that can be used for Foundation activities. The Foundation devotes all its income and profits, after paying its expenses, for the benefit of the University.

Contributions may be received in cash, marketable securities, real property, tangible personal property, gifts-in-kind, life insurance policies, and various deferred giving vehicles. Contributions received in forms other than cash, except gifts-in-kind and life insurance policies, are generally liquidated. The proceeds, together with cash gifts, are placed in investment pools or other investments consistent with the purpose of the gift or the requirements of the trust agreement. The Foundation employs investment professionals to manage its investment pools and certain trust investments.

The Foundation provides financial support for the University's private fundraising efforts, maintains donor records, issues reports to donors, and provides certain direct University support at the request of the University.

Basis of Presentation

Under Generally Accepted Accounting Principles, the Foundation is required to record and report all financial transactions in one of three classes of net assets:

- *Unrestricted net assets* – Represents the portion of expendable funds that are available for support of the Foundation's operations and services that are not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* – Represents contributions or resources whose use is limited by donor-imposed restrictions which expire by the passage of time or which can be fulfilled and removed by actions of the Foundation pursuant to the restrictions. Net assets released from restrictions represent expenses incurred during the year that satisfy the restricted purpose. Of the temporarily restricted balances at September 30, 2017, \$2,330,503 is restricted for scholarship purposes while \$13,289,488 is restricted for instructional and program support services.
- *Permanently restricted net assets* – Represents contributions or resources, which are subject to donor imposed stipulations that the Foundation permanently maintain the contribution. Generally, the donors of such assets permit the Foundation to use all or a part of the income earned on the asset based on the donor-imposed restrictions. Of the permanently restricted

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balances at September 30, 2017, \$19,662,393 is restricted for scholarship purposes while \$3,449,287 is for instructional and program support services

Net assets were released from donor-imposed restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors. The composition of net assets released from restrictions by type for the year ended September 30, 2017 is as follows:

	<u>Temporary</u>	<u>Permanent</u>
Program Services	\$ 2,794,761	\$ 57,424
Instruction	342,313	-
Scholarships	<u>714,285</u>	<u>-</u>
Total	<u>\$ 3,851,359</u>	<u>\$ 57,424</u>

Restatement of Net Assets

Net assets as of October 1, 2016 have been restated to adjust for certain pledges that were received in prior year, but not relieved from receivables. These adjustments have been made as follows:

	<u>Unrestricted</u>	<u>Temporary</u>	<u>Permanent</u>	<u>Total</u>
Beginning Net Assets – October 1, 2016	\$ 941,773	\$12,397,759	\$22,972,822	\$36,312,354
Prior Period Adjustments	<u>-</u>	<u>(47,000)</u>	<u>(100,000)</u>	<u>(147,000)</u>
Beginning Net Assets – October 1, 2016, as restated	<u>\$ 941,773</u>	<u>\$12,350,759</u>	<u>\$22,872,822</u>	<u>\$36,165,354</u>

Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting. All financial transactions have been recorded and reported as either unrestricted, temporarily

restricted, or permanently restricted based on the existence or absence of donor imposed restrictions.

Use of Estimates in the Preparation of Financial Statements

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

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Accounts Receivable

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

Allowance for Doubtful Accounts

Pledges receivable are stated net of an allowance for doubtful accounts. The Foundation estimates the allowance based on an analysis of specific donors, taking into consideration the age of past due amounts and an assessment of the donor's ability to pay. The allowance for doubtful accounts for pledges receivable was \$56,760 at September 30, 2017.

Inventories

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

Fixed Assets

Furniture and Equipment is recorded at cost to the Foundation or, if donated, at estimated fair value at the time of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. In the absence of donor-imposed restrictions on the use of donated asset, the Foundation has adopted a policy of reporting these donations as unrestricted support. The cost of property, plant, and equipment in excess of \$5,000 is capitalized. Additions, improvements or expenditures for repairs and maintenance that significantly add to the productivity or extend the economic life of the assets are capitalized. At the time items are retired or sold, the applicable cost and accumulated depreciation are removed from the accounts and the difference, net of proceeds, is charged or credited to operations. Expenses for repairs and maintenance are charged to operations as incurred. Depreciation of property and equipment is provided using the straight-line method over the estimated useful lives of the assets ranging from three to twenty years.

Donated artifacts and collectibles are recorded at cost if purchased or, if donated, at estimated fair value at the time of donation. The Foundation does not recognize depreciation on artifacts and collectibles. In addition, the Foundation utilizes certain facilities owned by the University. Such facilities are not recorded on the books of the Foundation.

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

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cash are recorded at their estimated fair value. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

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 exempt from paying tax under Section 501(c)(3) of the Internal Revenue Code. Accordingly, there is no provision for federal or state income taxes.

Uncertain Tax Positions

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Foundation had no unrelated business activities that are subject to taxes. The Foundation's federal Exempt Organization Business Income Tax Returns for 2014, 2015, and 2016 are subject to examination by the IRS, generally for three years after they were filed.

Subsequent Events

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through the date of the auditor's report, which was the date the financial statements were available to be issued.

Cash and Certificates of Deposit

The Foundation considers all time deposits, certificates of deposit and highly liquid instruments with an initial maturity of three months or less to be cash equivalents, except for investments purchased with endowment assets, which are classified as long-term investments. The Foundation maintains its cash balances with two financial institutions. At September 30, 2017, the full balance of the Foundation's deposits with banks were covered by either FDIC insurance or pledged securities from the financial institutions.

The Foundation has received certain donations that are required to be maintained in certificates of deposit with a certain bank. These certificates of deposit are associated with long term donations and are therefore considered restricted. At September 30, 2017, these restricted certificate of deposits totaled \$511,042 and exceeded FDIC insurable limits by \$261,042.

Investments

The Foundation's endowment consists of approximately 258 individual funds established for the purposes of scholarships and overall support of the University, including instructional and athletic support. 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 Board of Directors of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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

Investment Reporting

Security transactions are recorded on a trade date basis. Interest is recorded as earned and dividends are recorded as of the ex-dividend date. Investment income includes interest and dividends; realized/unrealized gains and losses are reported as fair value increase and decrease. Investment income attributable to amounts held for the benefit of the University is reported in temporarily restricted net assets. When the activities occur, the amounts are transferred from temporarily restricted to unrestricted net assets and the disbursements are reported as decreases in unrestricted net assets. Investment income attributable to amounts held for the benefit of the Foundation is reported in unrestricted net assets.

Investment Return Objective Risk Parameters and Strategies

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

Performance goals have been established to provide a basis upon which to judge the effectiveness of the investment objective and those responsible for implementing investment decisions on a day-to-day basis. Investment managers will be judged over a cycle of three to five years.

Spending Policy

It is the policy of the Foundation to annually distribute, at least 3-5% of the average market value of the Foundation's investments (at the beginning of a fiscal year) over a rolling three-year period. It shall be the responsibility of the Foundation's Investment Committee 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.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration due to unfavorable market fluctuations. When this is the case, any such deficiencies are reported in unrestricted net assets. At September 30, 2017, there were \$366,104 in deficiencies transferred to unrestricted net assets from temporary net assets related to investment losses.

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Changes in endowment net assets as of September 30, 2017, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets – 10/1/2017, restated	\$ -	\$ 2,539,061	\$ 22,872,822	\$ 25,411,883
Contributions, net			431,538	431,538
Investment income	-	2,407,288	-	2,407,288
Endowment Deficiencies	(366,104)	366,104	-	-
Amounts appropriated for expenditure	-	(830,554)	-	(830,554)
Transfer	<u>-</u>	<u>-</u>	<u>(192,680)</u>	<u>(192,680)</u>
Endowment net assets – 9/30/2017	<u>\$ (366,104)</u>	<u>\$ 4,481,899</u>	<u>\$ 23,111,680</u>	<u>\$ 27,227,475</u>

For the year ending September 30, 2017, investment management fees and investment income activity fees were \$119,735 and \$9,084, respectively.

Remainder Trusts and Gift Annuities

Remainder trust agreement assets are managed on an individual account basis in a diversified portfolio designed to reduce payment volatility, consider tax implications and maximize the value of each gift. Gift annuity assets are managed as a pool.

Investments by Group

	<u>General Investment Pool</u>	<u>Remainder Trusts and Gift Annuities</u>	<u>Total</u>
Cash & Money Market Funds	\$ 418,583	\$ 3,129	\$ 421,712
Marketable Mutual Funds	5,921,814	920,022	6,841,836
Limited Partnerships	<u>20,367,817</u>	<u>-</u>	<u>20,367,817</u>
Total Investments	<u>\$ 26,708,214</u>	<u>\$ 923,151</u>	<u>\$ 27,631,365</u>

Fair Value Measurements

Investment Valuation

Investments are reported at estimated fair value as determined by the Foundation, based upon a fair value hierarchy that prioritizes the input techniques used to measure fair value. The Foundation has elected to adopt early Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement (Topic 820): *Disclosures for Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)*. The ASU removed the requirement to categorize by level within the fair value hierarchy all investments with fair value measured using net asset value as a practical expedient and removed all other disclosure requirements.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements:

- Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2: Quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not considered active; observable inputs other than observable quoted prices for the asset or liability; or inputs derived principally from or corroborated by observable market data;
- Level 3: Significant unobservable inputs for assets or liabilities.

A financial instrument's level within this fair value hierarchy is based on the lowest level of any input that is significant to its fair value measurement. All transfers between fair value hierarchy levels are recognized at the beginning of each reporting period. The fair value hierarchy does not correspond to a financial instrument's relative liquidity in the market or to its level of risk.

In determining the reasonableness of the fair value measurement methodology, management, with the oversight of the Investment Committee, evaluates a variety of factors including review of existing contracts, economic conditions, and industry and market developments. Certain unobservable inputs are evaluated and adjusted, as necessary, based on current market conditions and other third-party information.

Level 1 investments are typically investments in debt and equity marketable securities but may also include money market funds, certificates of deposit, and other highly liquid investments with maturities of 90 days or less with high credit quality entities. All level 1 investments are reported at fair value.

For any level 3 investments, fair value would be determined by the Foundation to be best estimated by giving consideration to any factors which might necessitate an adjustment such as initial and ongoing due diligence monitoring, significant market or portfolio changes, and assumptions of a new hypothetical market participant. The Foundation does not have any level 3 investments.

The following table set forth by level, within the fair value hierarchy, the Foundation's investments measured at fair value on a recurring basis as of September 30, 2017:

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>At NAV</u>	<u>Total</u>
Certificates of Deposit	\$ 511,041	\$ -	\$ -	\$ -	\$ 511,041
Money Market	421,712	-	-	-	421,712
Mutual Funds:					-
PIMCO - Fixed Income	2,838,245	-	-	-	2,838,245
Vanguard Total Bond	2,537,941	-	-	-	2,537,941
First Eagle Global Fund	577,964	-	-	-	577,964
Eagle MPL Strategy Fund	288,941	-	-	-	288,941
Gotham Neutral Fund	315,929	-	-	-	315,929
Tortoise MLP & Pipeline	282,816	-	-	-	282,816
Total Mutual Funds	6,841,836	-	-	-	6,841,836
Limited Partnerships:					
U.S. Equity	-	-	-	6,879,976	6,879,976
International Equity	-	-	-	2,692,930	2,692,930
Emerging Markets	-	-	-	751,543	751,543
Hedged Equity	-	-	-	7,890,793	7,890,793
Fixed Income	-	-	-	1,495,970	1,495,970
Opportunistic	-	-	-	125,232	125,232
Real Assets	-	-	-	210,918	210,918
Private Equity	-	-	-	320,455	320,455
Total Limited Partnerships				20,367,817	20,367,817
	<u>\$ 7,774,589</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 20,367,817</u>	<u>\$28,142,406</u>

The following table provides information related to the previously mentioned investments that are valued based on Net Asset Values (NAV):

	Fair Value at September 30, <u>2017</u>	Unfunded Commitments at September 30, <u>2017</u>	Redemption Frequency	Redemption Notice Period
U.S. Equity (a)	\$ 6,879,976	\$ -	Quarterly	60 Days
International Equity (b)	2,692,930	-	Quarterly	60 Days
Emerging Markets (c)	751,543	-	Annual	30 Days
Hedged Equity (d)	7,890,793	-	Annual	90 Days
Fixed Income (e)	1,495,970	-	Monthly	10 Days
Opportunistic (f)	125,232	81,830	Annual	90 Days
Real Assets (g)	210,918	800,000	Annual	90 Days
Private Equity (h)	320,455	720,000	Annual	90 Days
Total	<u>\$ 20,367,817</u>	<u>\$ 1,601,830</u>		

- a) *U.S. Equity* – This category generally consists of managers that invest primarily in equity securities of U.S. corporations. U.S. equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- b) *International Equity* – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in foreign countries. International equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily be long-only.
- c) *Emerging Markets* – This category will generally consist of managers that invest primarily in equity securities of corporations domiciled in emerging foreign countries. Emerging markets equity may include multiple styles (growth, value) and market capitalizations (small, mid, large). These investments will primarily consist of long-only investments and hedged equity investments (long and short).
- d) *Hedged Equity* – This category consists of funds of funds that make long and short position equity investments. The bulk of the investment is subject to semi-annual or annual redemption.
- e) *Fixed Income* – This category will generally consist of managers that invest primarily in debt securities of corporations and governmental entities.
- f) *Opportunistic* – This category may include any strategy that offers exceptional risk/reward opportunities. This category is designed to provide the Investment Committee with the flexibility to select investments for a relatively small part of an overall allocation, which may not fit into the other designed allocation categories.
- g) *Real Assets* – This category will generally consist of managers that invest in a diverse basket of tangible assets with built-in inflation protection characteristics. These investments will primarily be long-only.
- h) *Private Equity* – This category consists of partnerships that invest primarily in U.S. based private companies. These investments cannot be voluntarily redeemed and are subject to sale based on market demand.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

Pledge Receivables

Pledge receivables, which are unconditional promises to give, are recorded as receivables and revenue when received. The Foundation distinguishes between contributions received for each net asset category in accordance with donor imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows. For pledges, the discount rates used to determine present values are based on U.S. Treasury note rates for comparable maturities at the date of the pledge. These average to approximately 1.2%.

Total pledge receivables, net of an allowance for uncollectible pledges and discounted to present value at September 30, 2017, are as follows:

	Less Than One <u>Year</u>	One to Five <u>Years</u>	<u>Total</u>
Pledges			
Gross	\$ 2,448,872	\$ 1,574,777	\$ 4,023,649
Allowance	-	(56,760)	(56,760)
Discount	-	(38,422)	(38,422)
Total Pledges	<u>\$ 2,448,872</u>	<u>\$ 1,479,595</u>	<u>\$ 3,928,467</u>

Fixed Assets

Fixed assets consisted of the following at September 30, 2017:

Donated artifacts and collectibles	\$ 98,650
Furniture and equipment	<u>24,364</u>
	123,014
Less accumulated depreciation	<u>(24,364)</u>
Total Fixed Assets	<u>\$ 98,650</u>

Depreciation expense for the year ending September 30, 2017 was \$0.

Obligations Under Split-Interest Agreements

The Foundation has entered into irrevocable charitable gift annuity agreements with donors whereby in exchange for the gift from the donor, the Foundation is obligated to provide an annuity to the donor or other designated beneficiaries for a specific number of years.

The Foundation has also entered into charitable remainder annuity and unitrust agreements whereby assets are made available on the condition that income is paid periodically to designated individuals. Payments of such amounts terminate at a time specified in the agreements. Remainder trust obligations are an actuarially determined liability which represents the present value of estimated future payments to beneficiaries, taking into consideration their life expectancy and discounted at applicable interest rates.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

A liability is recognized for the estimated present value of the both the gift annuities and the remainder trusts and the assets are recorded at their gross market value for agreements where the Foundation is the trustee. The discount rate and actuarial assumptions used in calculating the split-interest obligation are those provided in American Council on Gift Annuity guidelines and actuarial tables. The annuity payments are a general obligation of the Foundation.

Assets of the Foundation that are derived from gift annuities and charitable remainder trusts are included in investments on the statement of financial position. The values of these at September 30, 2017 are as follows:

	Remainder Trusts <u>Assets</u>	Gift Annuities <u>Assets</u>	Total <u>Assets</u>
Cash & Money Market	\$ 375	\$ 2,754	\$ 3,129
Mutual Funds	<u>483,214</u>	<u>436,808</u>	<u>920,022</u>
	<u>\$ 483,589</u>	<u>\$ 439,562</u>	<u>\$ 923,151</u>

Changes in obligations under the gift annuity and remainder trust contracts at September 30, 2017, were as follows:

	Gift Annuities <u>Liabilities</u>	Remainder Trusts <u>Liabilities</u>	Total Split- Interest <u>Liabilities</u>
Total Obligation at September 30, 2016	\$ 306,177	\$ 122,079	\$ 428,256
Obligation on New Gifts	-	-	-
Payments to Beneficiaries	(38,399)	(39,812)	(78,211)
Actuarial Value Changes	<u>24,820</u>	<u>31,048</u>	<u>55,868</u>
Total Obligation at September 30, 2017	<u>\$ 292,598</u>	<u>\$ 113,315</u>	<u>\$ 405,913</u>
Current Portion	\$ 38,399	\$ 39,812	\$ 78,211
Non-Current Portion	<u>253,342</u>	<u>74,360</u>	<u>327,702</u>
	<u>\$ 291,741</u>	<u>\$ 114,172</u>	<u>\$ 405,913</u>

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.

University of North Alabama
Notes to the Financial Statements
For the Year Ended September 30, 2017

Related Party

University Support

The University of North Alabama Foundation exists to assist the University. Due to the nature of this relationship, there are numerous transactions between the two entities and their representatives for program services, instruction, and scholarship purposes. During the year ended September 30, 2017, the Foundation expensed \$3,553,111 in support of the University's programs and scholarships. At September 30, 2017, pledge receivables from the Alumni Association and University Board of Trustees/Foundation Board of Directors were \$17,760 and \$73,300 respectively. The Foundation has payables to the University of \$1,286,663.

Personnel Costs and Facilities

The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was \$22,844 for the year ending September 30, 2017. Furthermore, the Foundation employees are paid by the University. The salaries and benefits and supplies for year ending September 30, 2017, were \$931,493. Supplies paid by the University for the Foundation totaled \$27,294 for the year ending September 30, 2017.

Funds Held for Others

The Foundation has an affiliation agreement with the University of North Alabama Sportsman's Club. The Sportsman Club has transferred funds to the Foundation for recordkeeping purposes. These funds are pooled together with the Foundations funds and the Foundation records a liability for such funds. As of September 30, 2017, the liability associated with such funds was \$148,231. The Foundation also has a pledge receivable from the Sportsman's Club of \$130,000 at September 30, 2017.

Recently Issued Accounting Standards

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Liabilities* (ASU 2016-01). ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit entities for fiscal years beginning after December 15, 2018, with early adoption restricted to certain provisions and within certain time periods. Under the ASU, not-for-profit and private entities are no longer required to disclose fair value information concerning financial instruments measured at amortized cost such as long-term debt. This provision of ASU 2016-01 may be early adopted for financial statements, which have not yet been issued or made available for issuance. The Foundation is currently evaluating the impact of this guidance.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842) (ASU 2016-02). The amendments in ASU 2016-02 create FASB ASC Topic 842, *Leases*, and supersede the requirements in ASC Topic 840, *Leases*. ASU 2016-02 requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under ASC Topic 840. Under the guidance of ASU 2016-02, a lessee should recognize in the balance sheet a liability to make lease payments (lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. The accounting applied by a lessor under ASU 2016-02 is largely unchanged from that applied under ASC Topic 840. The ASU is effective for all business entities for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the impact of this guidance.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Non-for-Profit Entities*. ASU 2016-14 (1) reduces the number of net asset classes presented from three to two; (2) requires the presentation of expenses by functional and natural classification in one location; and (3) requires quantitative and qualitative disclosures about liquidity and availability of financial assets. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the impact of this guidance.

Required Supplementary Information

University of North Alabama
Schedule of University of North Alabama's Proportionate
Share of the Net Pension Liability
Teachers' Retirement System of Alabama

	For the measurement period ended September 30, <u>2016</u>	For the measurement period ended September 30, <u>2015</u>	For the measurement period ended September 30, <u>2014</u>
UNA's proportion of the net pension liability	0.632297%	0.6399%	0.6189%
UNA's proportionate share of the net pension liability	\$68,452,000	\$66,978,000	\$56,228,000
UNA's covered-employee payroll	\$40,395,642	\$40,538,730	\$41,380,141
UNA's proportionate share of the net pension liability as a percentage of its covered-employee payroll	169.45%	165.22%	135.88%
Plan fiduciary net position as a percentage of the total pension liability	67.93%	67.51%	71.01%

Notes to the Schedule of University of North Alabama's Proportionate Share of the Net Pension Liability

This schedule presents only three years of information, rather than ten years, as only three years of trend information is available at September 30, 2017.

University of North Alabama
Schedule of University of North Alabama's Contributions
Teachers' Retirement System of Alabama

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 5,028,999	\$ 4,746,066	\$ 4,714,970
Contributions in relation to the contractually required contribution	<u>5,028,999</u>	<u>4,746,066</u>	<u>4,714,970</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered-employee payroll	\$42,790,190	\$40,395,642	\$40,538,730
Contributions as a percentage of covered-employee payroll	11.75%	11.75%	11.63%

Notes to the Schedule of University Contributions

This schedule presents only three years of information, rather than ten years, as only three years of trend information is available at September 30, 2017.

Additional Information

University of North Alabama
Listing of University Officials
October 1, 2016 through September 30, 2017

Officials

Kenneth D. Kitts

Evan M. Thornton

Shauna L. James

Position

President

Vice-President of Financial Affairs

Director of Student Financial Services

PART II

REPORTS ON COMPLIANCE AND INTERNAL CONTROL

Independent Auditor's 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

To the Board of Trustees
University of North Alabama

We have audited, in accordance with the 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, the financial statements of the University of North Alabama (the University) as of and for the year ended September 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated February 21, 2018. The financial statements of the University of North Alabama Foundation, a discretely presented component unit of the University of North Alabama, were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the University of North Alabama Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This report is intended solely for the information and use of management, President of the University, Chancellor of the Department of Postsecondary Education, 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.

CDPA, PC

Florence, Alabama
February 21, 2018

**Independent Auditor's Report on Compliance for Each Major
Program and on Internal Control over Compliance
Required by the Uniform Guidance**

To the Board of Trustees
University of North Alabama

Report on Compliance for Each Major Federal Program

We have audited University of North Alabama's compliance with the types of compliance requirements described in the *OMB 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, 2017. The University of North Alabama's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. The financial statements of the University of North Alabama Foundation were not audited in accordance with Uniform Guidance, and accordingly, this report does not extend to the University of North Alabama Foundation.

Management's Responsibility

Management is responsible for compliance with the requirements of federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the University of North Alabama's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the University of North Alabama's compliance.

Opinion on Each Major Federal Program

In our opinion, the University of North Alabama complied, in all material respects, with the types of 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, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

The University of North Alabama's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The University of North Alabama's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the University of North Alabama is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University of North Alabama's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of 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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

CDPA, PC

Florence, Alabama
February 21, 2018

PART III

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

University of North Alabama
Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2017

<u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
MAJOR PRGRAMS				
<u>Student Financial Assistance Cluster</u>				
<u>U.S. Department of Education Direct Programs</u>				
Federal Pell Grant Program	84.063	N.A.	\$ -	\$ 10,747,737
Federal Direct Student Loans	84.268	N.A.	-	32,665,658
Federal Work-Study Program	84.033	N.A.	-	264,588
Federal Supplemental Education Opportunity Grants	84.007	N.A.	-	154,707
Total U.S. Department of Education Direct Programs			-	43,832,690
<u>U.S. Department of Health and Human Services</u>				
Scholarships for Health Profession Students from Disadvantaged Backgrounds	93.925	N.A.	-	580,796
Total U.S. Department of Health and Human Services			-	580,796
Total Student Financial Assistance Cluster			-	44,413,486
<u>U.S. Department of Education Office of Elementary and Secondary Education Direct Program</u>				
Mathematics and Science Partnerships	84.366	U600119/U700136	-	279,483
Total Major Programs			\$ -	\$ 44,692,969

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

University of North Alabama
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
NON-MAJOR PROGRAMS				
<u>Research and Development Cluster</u>				
<u>National Science Foundation Direct Program</u>				
Mathematical and Physical Sciences	47.049	N.A.	-	5,836
<u>Child Nutrition Cluster</u>				
<u>U.S. Department of Agriculture Passed Through Lauderdale County Board of Education</u>				
National School Lunch Program	10.555	N.A.	-	17,916
<u>Small Business Administration Passed Through the University of Alabama</u>				
Small Business Development Center	59.037	SBAH-16-B-0019	-	71,993
<u>U.S. Department of Defense Passed Through the University of Alabama</u>				
Procurement Technical Assistance for Business Firms	12.002	SP4800-16-2-1601 SP4800-17-2-1701	-	22,171
<u>Appalachian Regional Commission Passed Through Shoals Economic Development Center</u>				
Appalachian Regional Development	23.001	00100	-	137,308
<u>Department of Justice Bureau of Justice Assistance</u>				
Body Word Camera Policy and Implementation	16.835	N.A.	-	5,630

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

University of North Alabama
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
<u>Department of Justice Bureau of Justice Assistance Passed Through Alabama Department of Economic and Community Affairs</u>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	16-DJ-ST-004	-	20,244
<u>U.S. Department of Health and Human Services Direct Programs</u>				
Occupational Safety and Health Program	93.262	N.A.	-	31,911
<u>U.S. Department of the Interior Direct Programs</u>				
National Heritage Area Federal Financial Assistance	15.939	N.A.	-	161,522
<u>National Science Foundation Passed Through University of Alaska Fairbanks</u>				
Geosciences	47.050	UAF 15-0061	-	12,023
<u>National Endowment for the Humanities</u>				
Promotion of the Humanities – Federal/State Partnership	45.129	N.A.	-	8,054
Total Non-Major Programs			-	494,608
Total Federal Awards			<u>\$ -</u>	<u>\$ 45,187,577</u>

N.A. = Not Available

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

University of North Alabama
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2017

NOTE 1 - BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of the University of North Alabama (the "University") under programs of the federal government for the year ended September 30, 2017. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the financial position, changes in net position or cash flows of the University.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The University has elected not to use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

For purposes of the Schedule, federal awards include all grants, contracts and similar agreements entered into directly between the University and agencies and departments of the federal government and all subawards to the University by nonfederal organizations pursuant to federal grants, contracts and similar agreements. The awards are classified into Type A and Type B categories in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Programs classified as Type A are as follows:

Student Financial Assistance Programs

Federal CFDA Numbers

Catalog of Federal Domestic Assistance (CFDA) numbers are assigned to contracts and grants on the basis of program type. CFDA numbers and pass-through numbers are provided when available.

NOTE 3 – FEDERAL PERKINS LOAN PROGRAM (CFDA Number 84.038)

The Federal Perkins Loan Program (Perkins) is administered directly by the University. There were no current year student advances under this program. Outstanding loan balances from previous year's activity are included in the University's basic financial statements. The balances of loans outstanding at September 30, 2017 totaled \$315,020, which is not reflected on the schedule of expenditures of federal awards.

University of North Alabama
Schedule of Expenditures of Federal Awards
For the Year ended September 30, 2017

NOTE 4 – FEDERAL DIRECT STUDENT LOAN PROGRAM (CFDA Number 84.268)

The Direct Loan program enables an eligible student or parent to obtain a loan to pay for the student's cost of attendance directly through the University rather than through private lenders. As a university qualified to originate loans, the University is responsible for handling the complete loan origination process, including funds management and promissory note functions. The University is not responsible for collection of these loans.

During the program year, the University processed approximately \$33 million of student loans under the Direct Loan program.

NOTE 5 – RECONCILIATION OF THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS TO THE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The following schedule is a reconciliation of total federal expenditures as shown on the Schedule of Expenditures of Federal Awards to the revenue items shown on the Statement of Revenues, Expenses and Changes in Net Position for the year ended September 30, 2017.

Federal Grants and Contracts – Operating Revenue	\$ 1,842,173
Federal Grants – Nonoperating Revenue	10,614,268
Fall 2017 Deferred Pell Grant Revenue	3,745,649
Fall 2016 Deferred Pell Grant Revenue	(3,680,171)
Federal Direct Student Loans	<u>32,665,658</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 45,187,577</u>

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

University of North Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?	___ yes	_x_ no
Significant deficiency(ies) identified?	___ yes	_x_ none reported
Noncompliance material to financial statements noted?	___ yes	_x_ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?	___ yes	_x_ no
Significant deficiency(ies) identified?	___ yes	_x_ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _x_ yes ___ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.366	Mathematics and Science Partnerships
	<u>Student Financial Assistance Cluster</u>
84.063	Federal Pell Grant Program
84.033	Federal Work-Study Program
84.007	Federal Supplemental Educational Opportunity Grants
84.268	Federal Direct Student Loans
93.925	Scholarships for Health Profession Students from Disadvantaged Backgrounds

Threshold used to determine Type A and Type B Programs: \$ 750,000

Auditee qualified as low-risk auditee? _x_ yes ___ no

Section II – Financial Statement Findings

The audit did not disclose any financial statement findings required to be reported.

University of North Alabama
Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2017

Section III – Federal Award Findings and Questioned Costs

REFERENCE	PROGRAM	QUESTIONED COSTS
2017-001	Student Financial Aid	\$ 932

Award Year – July 1, 2016 through June 30, 2017
Federal Pell Grant Program – CFDA 84.063

CONDITION

The University is responsible for accurately calculating the annual award of Federal Pell Grant as well as the amount of Pell Grant to be disbursed each payment period depending on the student's enrollment status, expected family contribution (EFC) and cost of attendance (COA). During our review, we noted that 1 out of 60 students selected for testing was not disbursed his allowable amount of Pell Grant due to a comment code that came in January 2017. The comment code requires manual review of the student's LEU and a manual adjustment to his NSLDS record in the Banner software system. The first manual review of the student's LEU was performed on August 25, 2016 and a manual NSLDS record was created. When a new NSLDS record was received in January 2017, this required an additional manual adjustment in order to allow for the Banner software system to disburse the proper Pell amount. This manual adjustment was not performed in the subsequent semester which caused the student to not receive the proper Pell award.

REFERENCE

34 CFR §690.63 – Calculation of a Federal Pell Grant for a Payment Period

CAUSE/EFFECT

The University did not manually adjust the student's NSLDS record in Banner which caused the student to not receive the appropriate Pell disbursement. While an appropriate manual adjustment was made in the first semester, the subsequent semester did not have the needed manual adjustment which caused Banner to flag the student and not award the proper Pell amount.

RECOMMENDATION

We recommend that the University monitor Banner to ensure that any NSLDS records are appropriately adjusted for in all semesters that affect a student's awards.

Management's View and Corrective Action Plan

Reference: 2017-001

Management concurs with this finding. The University has adjusted this student's account and will review awarded funds in the future to ensure they are properly disbursed. The University will also begin running a report at the beginning of the semester to ensure that all awarded students are disbursed funds in banner. This control will allow for detection of such errors in the future.



Corrective Action Plan Contact

Shauna James
Director of Student Financial Services

UNIVERSITY of NORTH ALABAMA

Business Office

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Status of Prior Year Findings and Questioned Costs



Reference: 2016-001

Type: Financial Statement Finding

During the prior year, it was noted although that the University was expensing 12 months of utilities expenses, they were expensing the first eleven months of the year and the last month of the previous year and were not accruing for the last month out of the current year. This resulted in the accrual of the last month's utilities expense and the restatement of the opening net position. The University implemented procedures to ensure the appropriate 12 months of utilities expenses were accrued as of year end.

Person Responsible:
Evan Thornton, CPA
Vice President of Financial Affairs

Status: Resolved

Reference: 2016-002

Type: Financial Statement Finding

During the prior year, it was noted that the University was carrying certain expenses associated with their food vendors as prepaid expenses. It was determined that the prepaid expense amounts should have been fully expensed and not carried as prepaid expenses as they were associated with time frames prior to the previous year end. The University implemented procedures to ensure prepaid expenses only included expenses paid for time frames after year end.

Person Responsible:
Evan Thornton, CPA
Vice President of Financial Affairs

Status: Resolved

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Status of Prior Year Findings and Questioned Costs (continued)



Reference: 2016-003

Type: Student Financial Aid Finding

During the prior year, it was noted that 2 students, who were non-tax filers, were selected for verification. As non-tax filers, their earned wages should have been verified through an IRS Form W-2. If the W-2 was not available, verification should have been made through a signed statement from the student that included the amount of income earned from work, the source of that income, and the reason why the W-2 was not available in a timely manner. For these 2 students, the W-2 nor the signed form were obtained in the prior year. The University implemented revised verification procedures in the prior year. Part of these procedures were that a non-tax filer form from the IRS will be obtained along with the required verification documentation under 34 CFR 668.51 through 668.61.

Person Responsible:

Shauna James

Director of Student Financial Aid Services

Status: Resolved

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