

# University of NORTH ALABAMA

## Financial Report 2018





# University of North Alabama

## Table of Contents

September 30, 2018

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### **PART I FINANCIAL STATEMENTS**

Independent Auditor's Report.....	1
Management's Discussion and Analysis .....	4
Statement of Net Position .....	12
Statement of Financial Position – Discretely Presented Component Unit .....	14
Statement of Revenues, Expenses and Changes in Net Position .....	16
Statement of Activities and Changes in Net Assets	
– Discretely Presented Component Unit.....	18
Statement of Cash Flows .....	19
Notes to the Financial Statements.....	21
Required Supplementary Information	
Schedule of University of North Alabama's Proportionate Share of the	
Net Pension Liability .....	66
Schedule of University of North Alabama's Pension Contributions .....	67
Schedule of University of North Alabama's Proportionate Share of the	
Net OPEB Liability .....	68
Schedule of University of North Alabama's OPEB Contributions .....	69
Listing of University Officials .....	70

### **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 .....	71
Independent Auditor's Report on Compliance for Each Major Program and on	
Internal Control Over Compliance Required by the Uniform Guidance .....	73

### **PART III SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Schedule of Expenditures of Federal Awards	
Year Ended September 30, 2018 .....	76
Notes to the Schedule of Expenditures of Federal Awards .....	79

### **PART IV SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Section I	
Summary of Auditors Results .....	81
Section II	
Financial Statement Findings.....	81
Section III	
Federal Award Findings and Questioned Costs	
Year Ended September 30, 2018 .....	81
Status of Prior Year Findings and Questioned Costs.....	82

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**PART I**

**FINANCIAL STATEMENTS**

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## **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, 2018, 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, 2018, 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.

## **Emphasis of Matter**

As discussed in Note 1 to the basic financial statements, in the year ended September 30, 2018, UNA adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. The October 1, 2017 net position has been restated to reflect changes resulting from the adoption of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the basic financial statements, in the year ended September 30, 2018, UNA adopted the provisions of Governmental Accounting Standards Board (“GASB”) Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. Our opinion is not modified with respect to this matter.

## **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, the schedule of University of North Alabama’s pension contributions on page 67, the schedule of University of North Alabama’s proportionate share of the net OPEB liability on page 68, and the schedule of University of North Alabama’s OPEB contributions on page 69 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 is presented for purposes of additional analysis 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* and is not a required part of the basic financial statements. Such information 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. The 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 70 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 March 1, 2019 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 the effectiveness of UNA's 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  
March 1, 2019

**University of North Alabama**  
**Management's Discussion and Analysis**  
**September 30, 2018**

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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	2018	2017	2016
Current Assets			
Cash and Short-term Investments	\$ 50,372,500	\$ 42,543,204	\$ 39,894,843
Receivables	6,633,537	8,022,868	7,572,156
Inventory, Prepaid Expenses, and Other	10,284,357	9,082,625	9,641,415
Total Current Assets	<u>67,290,394</u>	<u>59,648,697</u>	<u>57,108,414</u>
Non-Current Assets			
Restricted Cash and Long-term Investments	11,448,024	11,248,201	14,890,915
Other Non-Current Assets	195,554	284,877	403,888
Capital Assets, Net of Depreciation	148,989,384	147,120,359	147,114,072
Total Non-Current Assets	<u>160,632,962</u>	<u>158,653,437</u>	<u>162,408,875</u>
<b>Total Assets</b>	<b><u>\$ 227,923,356</u></b>	<b><u>\$ 218,302,134</u></b>	<b><u>\$ 219,517,289</u></b>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources Related to Pensions/OPEB	\$ 18,936,833	\$ 12,486,999	\$ 11,324,178
Loss on Refunding Bonds	298,007	336,096	349,256
Total Deferred Outflows of Resources	<b><u>\$ 19,234,840</u></b>	<b><u>\$ 12,823,095</u></b>	<b><u>\$ 11,673,434</u></b>
LIABILITIES			
Current Liabilities			
Accounts Payable and Current Liabilities	\$ 13,892,197	\$ 10,307,642	\$ 9,489,179
Unearned Revenue	28,425,512	28,166,310	27,846,944
Total Current Liabilities	<u>42,317,709</u>	<u>38,473,952</u>	<u>37,336,123</u>
Non-Current Liabilities			
Long-term Liabilities	183,100,029	142,620,210	142,883,743
<b>Total Liabilities</b>	<b><u>\$ 225,417,738</u></b>	<b><u>\$ 181,094,162</u></b>	<b><u>\$ 180,219,866</u></b>
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources Related to Pensions/OPEB	<b><u>\$ 12,151,901</u></b>	<b><u>\$ 2,375,865</u></b>	<b><u>\$ 362,865</u></b>
NET POSITION			
Invested in Capital Assets, Net of Related Debt	\$ 77,117,391	\$ 72,875,642	\$ 71,312,133
Restricted	5,044,049	10,260,938	8,820,233
Unrestricted (deficit)	(72,572,883)	(35,481,378)	(29,524,374)
<b>Total Net Position</b>	<b><u>\$ 9,588,557</u></b>	<b><u>\$ 47,655,202</u></b>	<b><u>\$ 50,607,992</u></b>

**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.

**Cash and short-term investments** increased by \$7.8 million. This increase reflects the transfers of gifts from foundation for capital projects of approximately \$5 million. The additional increase of \$2.8 million can be traced to operations and timing of payments to vendors.

**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. The University monitors the investment portfolio to insure proper adherence to investment guidelines.



**Capital assets (net)** increased due to current year equipment and building additions.

**Accounts payable and current liabilities** increased 34.8% and 10.0%, respectively, due to an increase accrued salaries and timing of vendor payments.

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

**Net position** decreased 79.9% overall. The decrease is due to the impact of implementation of GASB 75 with the recording of the OPEB liability.



**University of North Alabama**  
**Management's Discussion and Analysis**  
**September 30, 2018**

*Statement of Revenues, Expenses and Changes in Net Position*

<b>REVENUES</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
Operating Revenues			
Student Tuition and Fees (net of scholarship allowances)	\$ 46,155,412	\$ 43,561,591	\$ 39,672,382
Auxiliary Enterprises Revenue (net of allowances)	17,688,269	16,890,635	14,917,557
Grants and Contracts	5,287,690	6,094,180	4,954,843
Athletic Revenue	1,943,708	1,491,860	1,063,150
Other Operating Revenue	<u>6,677,158</u>	<u>1,608,960</u>	<u>2,058,492</u>
Total Operating Revenues	<u>77,752,237</u>	<u>69,647,226</u>	<u>62,666,424</u>
<b>EXPENSES</b>			
Operating Expenses	<u>113,078,584</u>	<u>110,553,471</u>	<u>101,781,556</u>
Net Operating Income (Loss)	<u>(35,326,347)</u>	<u>(40,906,245)</u>	<u>(39,115,132)</u>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
State Appropriations	30,071,686	29,347,189	28,369,978
Federal Grants and Contracts	11,593,254	10,614,268	10,438,798
Gifts (including Endowment)	229,206	138,407	147,019
Investment Income	965,621	912,603	620,807
Other Non-Operating Expense	<u>(3,389,077)</u>	<u>(3,059,012)</u>	<u>(2,944,038)</u>
Total Non-Operating Revenues-Net	<u>39,470,690</u>	<u>37,953,455</u>	<u>36,632,564</u>
Increase (Decrease) in Net Position	<u>4,144,343</u>	<u>(2,952,790)</u>	<u>(2,482,568)</u>
Net Position-Beginning of Year	47,655,202	50,607,992	54,417,056
Prior Period Adjustments	<u>(42,210,988)</u>	-	<u>(1,326,496)</u>
Net Position-Beginning of Year, as Restated	<u>5,444,214</u>	<u>50,607,992</u>	<u>53,090,560</u>
<b>Net Position-End of Year</b>	<b><u>\$ 9,588,557</u></b>	<b><u>\$ 47,655,202</u></b>	<b><u>\$ 50,607,992</u></b>

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 6.0% in fiscal year 2018. The increase was due to an increased credit hours along with banded tuition implementation.

**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

**University of North Alabama**  
**Management's Discussion and Analysis**  
**September 30, 2018**

from residence halls, apartments, food services, university health services, rental property, and other student related activities are included in this total. Auxiliary revenue increased 4.7%.



**Grants and contracts revenue** decreased 13.2% as a result of smaller expenditures for fiscal year 2018.

**Athletic revenue** increased by approximately \$452,000 due to increase in external fund raising and contributions.

**Operating expenses** increased by \$2.5 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 5.8% during the fiscal year primarily due to favorable market rates.

***Operating Expenses by Functional Classification***

	<b>2018</b>	<b>2017</b>	<b>2016</b>
Instruction	\$ 38,946,122	\$ 38,190,684	\$ 34,957,871
Research & Public Service	5,487,207	5,410,471	5,869,436
Academic Support	4,853,979	5,026,041	5,100,298
Student Services	9,076,417	8,170,958	7,484,146
Institutional Support	15,651,635	13,459,236	13,312,032
Operation & Maintenance of Plant	9,362,895	9,715,979	9,087,887
Depreciation	5,096,026	5,692,411	5,564,420
Scholarships & Related Expenses	8,376,776	7,413,703	5,788,646
Auxiliary Activities	16,227,527	17,473,988	14,616,820
	<b><u>\$ 113,078,584</u></b>	<b><u>\$ 110,553,471</u></b>	<b><u>\$ 101,781,556</u></b>

**University of North Alabama**  
**Management's Discussion and Analysis**  
**September 30, 2018**

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.

**Student services expenditures** increased 11.1% due to increased expenses in the athletic department.

**Operation and maintenance of plant** decreased 3.6% due to decreased projects during the current year.

**Auxiliary expenditures** decreased 7.1% due to previous year one-time expenditures for NCAA application.

***Operating Expenses by Natural Classification***

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Salaries	\$ 49,631,586	\$ 50,597,140	\$ 46,303,072
Benefits	19,227,757	15,514,285	15,898,484
Supplies & Other	22,095,453	22,145,853	19,381,654
Utilities	3,851,144	3,783,519	3,808,429
Plant & Equipment	5,076,223	5,563,104	4,823,860
Financial Aid	8,100,395	7,257,159	6,001,637
Depreciation	5,096,026	5,692,411	5,564,420
Total	<u><u>\$ 113,078,584</u></u>	<u><u>\$ 110,553,471</u></u>	<u><u>\$ 101,781,556</u></u>

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

**Benefits** increased 23.9% due to implementation of GASB 75 changing the amount of expense for OPEB.

**Plant and equipment** decreased 8.6% due to fewer deferred maintenance projects completed during current fiscal year.

**Financial aid** increased 11.6% due to an increase in scholarship expense and adjustments for scholarship allowance.

***Statement of Cash flows***

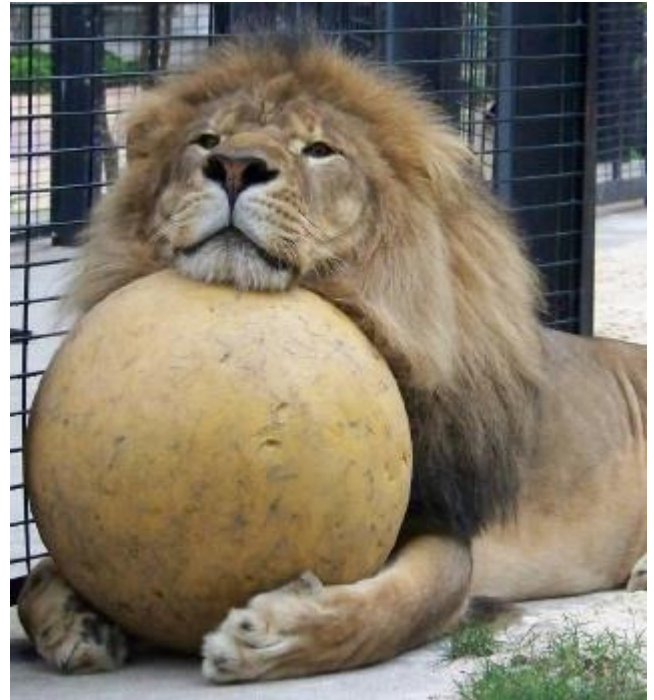
	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Cash Provided (Used) By:</b>			
Operating Activities	\$ (23,247,757)	\$ (31,834,738)	\$ (28,814,941)
Non-capital Financing Activities	41,587,634	40,176,815	38,740,672
Capital and Related Financing Activities	(11,741,663)	(10,249,362)	(5,509,297)
Investing Activities	<u>3,659,133</u>	<u>785,371</u>	<u>(174,033)</u>
<b>Net Increase (Decrease) in Cash</b>	10,257,347	(1,121,914)	4,242,401
<b>Cash, Beginning of Year</b>	<u>38,772,929</u>	<u>39,894,843</u>	<u>35,652,442</u>
<b>Cash, End of Year</b>	<u><u>\$ 49,030,276</u></u>	<u><u>\$ 38,772,929</u></u>	<u><u>\$ 39,894,843</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** is the primary source of non-capital financing. Accounting standards require this source of revenue to be reported as non-operating although the University's budget depends on this funding to continue the current level of operations.



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

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

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

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 University initiated "Project 208", led by President Dr. Kitts, an initiative for fair and equitable funding from the State of Alabama.

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, 2018

*STUDENT FALL ENROLLMENT DATA (head count)*

	2018 %	2017 %	2016 %	2015 %	2014 %	2013 %	2012 %
<i>Undergraduate</i>	6196 81%	6221 83%	6313 84%	6,092 86%	5,886 86%	5,993 86%	6,119 87%
<i>Graduate</i>	1454 19%	1236 17%	1179 16%	986 14%	956 14%	938 14%	934 13%
<b>Total</b>	<b>7,650</b>	<b>7,457</b>	<b>7,492</b>	<b>7,078</b>	<b>6,842</b>	<b>6,931</b>	<b>7,053</b>
<b>FALL ENROLLMENT BREAKDOWN</b>							
<i>Graduate</i>	1454 19%	1236 17%	1179 16%	986 14%	956 14%	938 14%	934 13%
<i>Seniors</i>	1602 21%	1562 21%	1575 21%	1,571 22%	1,387 20%	1,495 22%	1,423 20%
<i>Juniors</i>	1415 18%	1277 17%	1262 17%	1,206 17%	1,129 17%	1,179 17%	1,278 18%
<i>Sophomores</i>	1120 15%	1201 16%	1163 16%	1,097 15%	1,209 18%	1,126 16%	1,161 16%
<i>Freshmen</i>	1497 20%	1681 23%	1755 23%	1,673 24%	1,591 23%	1,620 23%	1,695 24%
<i>Special *</i>	562 7%	500 7%	558 7%	545 8%	570 8%	573 8%	562 8%
<i>In-State</i>	5723 75%	5774 77%	5797 77%	5,537 78%	5,352 78%	5,493 79%	5,604 79%
<i>International</i>	495 6%	381 5%	401 5%	308 4%	413 6%	408 6%	476 7%
<i>Out-of-State</i>	1432 19%	1302 17%	1294 17%	1,233 17%	1,077 16%	1,030 15%	973 14%
<i>Full-Time</i>	5369 70%	5505 74%	5515 74%	5,304 75%	4,924 72%	5,122 74%	5,233 74%
<i>Part-Time</i>	2281 30%	1952 26%	1977 26%	1,774 25%	1,918 28%	1,809 26%	1,820 26%
<i>Female</i>	4529 59%	4409 59%	4435 59%	4,165 59%	3,969 58%	4,016 58%	4,096 58%
<i>Male</i>	3121 41%	3048 41%	3057 41%	2,913 41%	2,873 42%	2,915 42%	2,957 42%
<i>Not-Reported</i>							
<i>White</i>	5406 71%	5296 71%	5281 70%	4,985 70%	4,867 71%	4,993 72%	5,164 73%
<i>Black</i>	1034 14%	1045 14%	1011 13%	945 13%	869 13%	888 13%	896 13%
<i>Other</i>	1210 16%	1116 15%	1200 16%	1,148 16%	1,106 16%	1,050 15%	993 14%

\* Special includes all Non-classified, ESL and Postbaccalaureate



**University of North Alabama**  
**Statement of Net Position**  
**September 30, 2018**

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**ASSETS**

Current Assets

Cash and Cash Equivalents	\$ 49,030,276
Short-Term Investments	1,342,224
Accounts Receivable, Net of Allowance for Doubtful Accounts of \$679,565	6,633,537
Inventories	14,313
Perkins Loan Receivable-Current Portion	62,321
Stadium Use Agreement-Current Portion	46,899
Prepaid Expenses and Unearned Scholarships	<u>10,160,824</u>
Total Current Assets	<u>67,290,394</u>

Non-Current Assets

Deposit with Trustee	330
Long-Term Investments	11,447,694
Perkins Loan Receivable	195,554
Capital Assets:	
Land	3,873,529
Improvements Other Than Buildings	14,431,311
Buildings	190,294,901
Software	7,615,055
Equipment and Furniture	9,135,485
Library Holdings	10,894,760
Construction in Progress	3,282,142
Less: Accumulated Depreciation	<u>(90,537,799)</u>
Total Capital Assets, Net of Deprecation	<u>148,989,384</u>
Total Non-Current Assets	<u>160,632,962</u>

**Total Assets** \$ 227,923,356

**DEFERRED OUTFLOWS OF RESOURCES**

Deferred Outflows of Resources Related to Pensions	11,041,992
Deferred Outflows of Resources Related to OPEB	7,894,841
Loss on Bond Defeasance	<u>298,007</u>
<b>Total Deferred Outflows of Resources</b>	<u>\$ 19,234,840</u>

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

**University of North Alabama**  
**Statement of Net Position**  
**September 30, 2018**

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**LIABILITIES**

Current Liabilities

Accounts Payable and Accrued Liabilities	\$ 11,448,829
Unearned Revenue	28,425,512
Deposit Liabilities	572,048
Bonds Payable-Current Portion	1,755,382
Compensated Absences-Current Portion	<u>115,938</u>

Total Current Liabilities 42,317,709

Non-Current Liabilities

Bonds Payable	71,120,049
Net OPEB Liability	47,557,009
Net Pension Liability	63,227,000
Compensated Absences	<u>1,195,971</u>

Total Non-Current Liabilities 183,100,029

**Total Liabilities** \$ 225,417,738

**DEFERRED INFLOWS OF RESOURCES**

Deferred Inflows of Resources Related to Pensions	6,960,865
Deferred Inflows of Resources Related to OPEB	<u>5,191,036</u>

**Total Deferred Outflows of Resources** \$ 12,151,901

**NET POSITION**

Net Investment in Capital Assets	77,117,391
Restricted:	
Nonexpendable	4,397,554
Expendable:	
Scholarships and Instruction	388,620
Loans	257,875
Unrestricted Deficit	<u>(72,572,883)</u>

**Total Net Position** \$ 9,588,557

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, 2018**

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**Assets**

Current Assets

Cash and Cash Equivalents	\$ 1,645,819
Pledges Receivable – Current	982,527
Certificate of Deposits	2,519,829
Interest Receivable	<u>15,016</u>

Total Current Assets 5,163,191

Long-Term Investments

Restricted Certificates of Deposit for Long Term Investments	511,042
Certificate of Deposits	1,512,469
Investments	<u>30,744,685</u>

Total Long-Term Investments 32,768,196

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

Cash Surrender Value of Life Insurance	183,559
Pledges Receivable – Non-Current	<u>922,132</u>

Total Other Assets 1,105,691

Total Assets \$ 39,135,728

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, 2018**

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**Liabilities and Net Assets**

Current Liabilities

Accounts Payable	\$ 293,773
Obligations to Beneficiaries under Split-Interest Agreements – Current	<u>38,399</u>

Total Current Liabilities 332,172

Non-Current Liabilities

Obligations to Beneficiaries under Split-Interest Agreements – Non-Current	<u>239,032</u>
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Total Non-Current Liabilities 239,032

Total Liabilities 571,204

Net Assets

Unrestricted	1,927,286
Temporarily Restricted	11,210,170
Permanently Restricted	<u>25,427,068</u>

Total Net Assets 38,564,524

Total Liabilities and Net Assets \$ 39,135,728

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, 2018**

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**OPERATING REVENUES**

Student Tuition and Fees (Net of Scholarship Allowances of \$18,239,464)	\$ 46,155,412
Federal Grants and Contracts	1,875,979
State and Local Grants and Contracts	3,343,065
Nongovernmental Grants and Contracts	68,646
Auxiliary Enterprises (Net of Allowances of \$114,431)	17,688,269
Athletic Revenue	1,943,708
Other Operating Revenue	<u>6,677,158</u>
Total Operating Revenues	<u>77,752,237</u>

**OPERATING EXPENSES**

Instruction	38,946,122
Research	98,578
Public Service	5,388,629
Academic Support	4,853,979
Student Services	9,076,417
Institutional Support	15,651,635
Operation and Maintenance	9,362,895
Scholarships and Financial Aid	8,376,776
Depreciation	5,096,026
Auxiliary Enterprises	<u>16,227,527</u>
Total Operating Expenses	<u>113,078,584</u>
Operating Loss	<u>(35,326,347)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	30,071,686
Federal Grants	11,593,254
Investment Income - Net	965,621
Interest on Debt	(3,082,356)
Other Nonoperating Revenue (Expenses)	<u>(306,721)</u>
Net Nonoperating Revenues	<u>39,241,484</u>
Income before Other Changes in Net Position	3,915,137

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, 2018**

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**OTHER CHANGES IN NET POSITION**

Additions to Permanent Endowments	<u>229,206</u>
Change In Net Position	<u>4,144,343</u>
<b>Net Position - Beginning of Year</b>	47,655,202
Adjustment for Change in Accounting Principle (Note 1)	<u>(42,210,988)</u>
<b>Net Position - Beginning of Year (Restated)</b>	<u>5,444,214</u>
<b>Net Position - End of Year</b>	<u>\$ 9,588,557</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, 2018**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues and Support</b>				
<u>Support</u>				
Contributions	\$ 473,966	\$ 2,096,103	\$ 2,214,079	\$ 4,784,148
In-Kind Donations	903,290	7,953	-	911,243
Other Income	80,593	421,290	-	501,883
Transfers	1,282,810	(1,413,119)	130,309	-
Net Assets Released from Restrictions	<u>7,752,488</u>	<u>(7,723,488)</u>	<u>(29,000)</u>	<u>-</u>
Total Support	10,493,147	(6,611,261)	2,315,388	6,197,274
<u>Revenue</u>				
Interest Income	77,143	52,494	-	129,637
Investment Return	<u>-</u>	<u>2,148,946</u>	<u>-</u>	<u>2,148,946</u>
Total Revenue	<u>77,143</u>	<u>2,201,440</u>	<u>-</u>	<u>2,278,583</u>
Total Support and Revenue	10,570,290	(4,409,821)	2,315,388	8,475,857
<b>Expenses</b>				
Program Services	7,725,800	-	-	7,725,800
Management and General	1,360,578	-	-	1,360,578
Fundraising Expenses	<u>403,501</u>	<u>-</u>	<u>-</u>	<u>403,501</u>
Total Expenses	<u>9,489,879</u>	<u>-</u>	<u>-</u>	<u>9,489,879</u>
Change in Net Assets	1,080,411	(4,409,821)	2,315,388	(1,014,022)
Net Assets at Beginning of Year	<u>846,875</u>	<u>15,619,991</u>	<u>23,111,680</u>	<u>39,578,546</u>
Net Assets at End of Year	<u>\$ 1,927,286</u>	<u>\$ 11,210,170</u>	<u>\$ 25,427,068</u>	<u>\$ 38,564,524</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, 2018**

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and Fees	\$ 46,206,179
Federal Grants and Contracts	1,659,167
State and Local Grants and Contracts	5,157,643
Nongovernmental Grants and Contracts	68,646
Sales and Services of Educational Departments	17,688,269
Athletic Income	1,943,708
Other Operating Revenues	6,280,579
Payments to Employees	(46,610,097)
Payments for Benefits	(15,819,007)
Payments to Suppliers	(27,315,309)
Payments to Utilities	(3,813,475)
Payments for Scholarships	<u>(8,694,060)</u>
Net Cash Used in Operating Activities	<u>(23,247,757)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	30,071,686
Federal Grants and Contracts	11,593,254
Gifts and Grants Received for Other Than Capital Purposes	229,206
Direct and Other Loan Receipts	33,869,139
Direct and Other Loan Disbursements	(33,811,994)
Deposit Liabilities	(56,936)
Other Nonoperating Revenues/Expenditures	<u>(306,721)</u>
Net Cash Provided by Noncapital Financing Activities	<u>41,587,634</u>

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

Stadium Use Agreement Principal	44,773
Purchases of Capital Assets	(7,284,807)
Proceeds from Sale of Assets	251,000
Deposits with Trustees	51
Principal Paid on Capital Debt	(1,685,000)
Interest Paid on Capital Debt	<u>(3,067,680)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(11,741,663)</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, 2018**

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**CASH FLOWS FROM INVESTING ACTIVITIES**

Proceeds from Sales and Maturities of Investments	4,775,214
Purchase of Investments	(2,081,702)
Interest on Investments	<u>965,621</u>
Net Cash Provided by Investing Activities	<u>3,659,133</u>

Net Decrease in Cash and Cash Equivalents	10,257,347
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<b>Cash and Cash Equivalents - Beginning of Year</b>	<u>38,772,929</u>
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<b>Cash and Cash Equivalents - End of Year</b>	<u><u>\$ 49,030,276</u></u>
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**RECONCILIATION OF NET OPERATING LOSS TO  
NET CASH USED BY OPERATING ACTIVITIES:**

Operating Loss	\$ (35,326,347)
Adjustments to Reconcile Net Operating Loss to Net Cash Used in Operating Activities:	
Depreciation Expense	5,096,026
Unrealized Gain on Investments	(465,335)
Loss on Disposal of Assets	68,756
Changes in Assets and Liabilities:	
Receivables	1,389,331
Prepaid Expenses	(1,238,375)
Inventory	6,121
Accounts Payable and Accrued Expenses	3,515,641
Pension Related Deferrals and Liabilities	3,447,223
Deferred Revenue	<u>259,202</u>

Net Cash Used by Operating Activities	<u><u>\$ (23,247,757)</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, 2018**

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- 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, 2018**

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*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.

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.

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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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.

**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.

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, 2018 was \$5,096,026.

**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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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employees earn and accumulate annual leave at the following rates:

<b><u>Years of Employment</u></b>	<b><u>Number of Days Each Year</u></b>	<b><u>Maximum Days Accumulation</u></b>
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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

***Change in Accounting Principle*** - Net position as of October 1, 2017 has been restated as follows for the implementation of GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

Net position as previously reported at September 30, 2017	\$ 47,655,202
Total OPEB liability (measurement date as of September 30, 2017)	43,765,331
Deferred outflows	<u>(1,554,343)</u>
Total prior period adjustment	<u>42,210,988</u>
Net position as restated, October 1, 2017	<u>\$ 5,444,214</u>

UNA also implemented GASB Statement 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* during the year ended September 30, 2018. There were no restatements to prior year amounts related to the implementation of GASB 89.

***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*

*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



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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.

**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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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- 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, 2018 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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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- 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



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

Investments' fair value measurements are as follows at September 30, 2018:

	<u>9/30/2018</u>	<u>Fair Value Measurement Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
		<u>Inputs</u>	<u>Inputs</u>	<u>Inputs</u>
<b>Investment by Fair Value Level</b>				
Certificates of Deposit	\$ 2,455,288	\$ 2,455,288	\$ -	\$ -
Debt Securities				
Municipal Bonds	1,977,187	1,977,187	-	-
Government Agency Bonds	397,506	397,506	-	-
Total Debt Securities	2,374,693	2,374,693	-	-
Equity Securities				
Oil Industry	46,998	46,998		
Mutual Funds				
Pimco Short Term Instl CL	625,573	625,573	-	-
Tortoise MLP & Pipeline	274,961	274,961	-	-
Total Mutual Funds	900,534	900,534	-	-
Bond Funds				
Metropolitan West	569,484	569,484	-	-
Total Investments by Fair Value Level	\$ 6,346,997	\$ 6,346,997	\$ -	\$ -

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:

<b>Investments Measured at the Net Asset Value (NAV)</b>	
U.S. Equity Fund	\$ 2,299,055
International Equity Fund	904,038
Emerging Markets Fund	198,803
Hedged Equity Fund	2,053,756
Fixed Income Fund	606,096
Opportunistic Fund	32,520
Real Assets Fund	139,052
Private Equity Fund	209,601
Total Investments Measured at the NAV	<u>\$ 6,442,921</u>

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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The total investments from the above schedules are as follows:

Total Investments by Fair Value Level	\$ 6,346,997
Total Investments Measured at the NAV	<u>6,442,921</u>
	<u>\$ 12,789,918</u>

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

Short-Term Investments	\$ 1,342,224
Long-Term Investments	<u>11,447,694</u>
	<u>\$ 12,789,918</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, 2018, are as follows:

	<b>Unfunded</b>			
	<b>Fair Value at</b>	<b>Commitments at</b>	<b>Redemption</b>	<b>Redemption Notice</b>
	<b>September 30, 2018</b>	<b>September 30, 2018</b>	<b>Frequency</b>	<b>Period</b>
U.S. Equity Fund (a)	\$ 2,299,055	\$ -	Quarterly	60 Days
International Equity Fund (b)	904,038	-	Quarterly	60 Days
Emerging Markets Fund (c)	198,803	-	Annual	30 Days
Hedged Equity Fund (d)	2,053,756	-	Annual	90 Days
Fixed Income Fund (e)	606,096	-	Monthly	10 Days
Opportunistic Fund (f)	32,520	29,228	Annual	90 Days
Real Assets Fund (g)	139,052	280,000	Annual	90 Days
Private Equity Fund (h)	209,601	252,000	Annual	90 Days
Total	<u>\$ 6,442,921</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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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, 2018, UNA had a significant amount invested in short and long term investments, primarily tax free bonds. During the year ended September 30, 2018, the University realized losses of \$7,496 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, 2018 of \$465,335.



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

At September 30, 2018, 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	997,875	1,457,413	-	-	\$ 2,455,288
Equity Securities					46,998
Debt Securities	1,342,224	1,032,469	-	-	2,374,693
Mutual Funds					900,534
Bond Funds					569,484
Limited Partnerships					6,442,921
Total University Investments					<u>\$ 12,789,918</u>

At September 30, 2018, the amount and credit rating of the University's debt securities was as follows:

	2018
Debt Securities	
Aaa	\$ 397,506
Aa3	622,399
AA	101,515
A1	1,253,273
	<u>\$2,374,693</u>

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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**NOTE 3 - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2018, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital Assets Not Being Depreciated:					
Land	\$ 3,835,429	\$ 38,100	\$ -	\$ -	\$ 3,873,529
Construction in Progress	4,317,980	2,963,982	-	(3,999,820)	3,282,142
Total Capital Assets Not Being Depreciated	8,153,409	3,002,082	-	(3,999,820)	7,155,671
Capital Assets Being Depreciated:					
Improvements Other than Buildings	12,804,758	-	-	1,626,553	14,431,311
Buildings	185,694,907	2,475,092	(248,365)	2,373,267	190,294,901
Equipment	8,212,518	1,700,600	(777,633)	-	9,135,485
Software	7,615,055	-	-	-	7,615,055
Library Holdings	16,013,501	107,033	(5,225,774)	-	10,894,760
Total Capital Assets Being Depreciated	230,340,739	4,282,725	(6,251,772)	3,999,820	232,371,512
Less Accumulated Depreciation:					
Improvements Other than Buildings	8,278,183	454,986	-	-	8,733,169
Buildings	54,682,844	3,781,226	(14,074)	-	58,449,996
Equipment	5,767,596	604,008	(692,169)	-	5,679,435
Software	7,615,055	-	-	-	7,615,055
Library Holdings	15,030,111	255,806	(5,225,773)	-	10,060,144
Total Accumulated Depreciation	91,373,789	5,096,026	(5,932,016)	-	90,537,799
Total Capital Assets, Net	<u>\$ 147,120,359</u>	<u>\$ 2,188,781</u>	<u>\$ (319,756)</u>	<u>\$ -</u>	<u>\$ 148,989,384</u>

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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**NOTE 4 - RECEIVABLES**

Receivables are summarized as follows:

Accounts Receivable:

Federal and State Agencies	\$ 2,204,367
Third Party	1,686,352
Students	3,232,802
Other	189,581
Less: Allowance for Doubtful Accounts	<u>(679,565)</u>
Total Accounts Receivable, Net	<u>6,633,537</u>

Perkins Loan Receivables:

Current Perkins Loan Receivable	62,321
Noncurrent Perkins Loan Receivable	<u>195,554</u>
Total Perkins Loan Receivable	<u>257,875</u>
Total Receivables, Net	<u>\$ 6,891,412</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](http://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 retirement benefits are based on a guaranteed minimum or a formula method, with the member

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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.

Act 377 of the Legislature of 2012 established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. 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, 2018 was 12.24% of annual pay for Tier 1 members and 11.01% 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 \$5,282,992 for the year ended September 30, 2018.

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

At September 30, 2018 the University reported a liability of \$63,227,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2017 and the total pension liability used to calculate the net pension liability was

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

determined by an actuarial valuation as of September 30, 2016. 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, 2017 the University's proportion was 0.643305%, which was an increase of 0.011008% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the University recognized pension expense of \$6,095,000. At September 30, 2018 the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 2,711,000
Changes of assumptions	3,774,000	-
Net difference between projected and actual earnings on pension plan investments	-	3,780,000
Changes in proportion and differences between Employer contributions and proportionate share of contributions	1,985,000	469,865
Employer contributions subsequent to the measurement date	<u>5,282,992</u>	<u>-</u>
	<u>\$ 11,041,992</u>	<u>\$ 6,960,865</u>

\$5,282,992 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, 2019. 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:**

2019	\$ 46,000
2020	1,026,000
2021	(1,190,000)
2022	(1,061,000)
2023	(23,000)
	<u>\$ (1,202,000)</u>

**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of September 30, 2016, with a measurement date of September 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

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

\*Net of pension plan investment expense



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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The actuarial assumptions used in the actuarial valuation as of September 30, 2016, 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:

	<b><u>Target Allocation</u></b>	<b><u>Long-Term Expected Rate of Return*</u></b>
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 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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**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:

	<b>1% Decrease (6.75%)</b>	<b>Current Rate (7.75%)</b>	<b>1% Increases (8.75%)</b>
University's proportionate share of collective net pension liability	87,210,000	63,227,000	42,939,000

**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, 2017. The supporting actuarial information is included in the GASB Statement No. 67 Report for the TRS prepared as of September 30, 2017. The auditor's report dated August 20, 2018 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, 2017 along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**NOTE 6 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

**Plan Description**

The Alabama Retired Education Employees' Health Care Trust (Trust) is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (Board) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in PEEHIP. Active and retiree health insurance benefits are paid through the Public Education Employees' Health Insurance Plan (PEEHIP). In accordance with GASB, the Trust is considered a component unit of the State of Alabama (State) and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975, Title 16, Chapter 25A* (Act 83-455) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees, and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the Board. The Board is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975, Section 16-25A-4*

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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provides the Board with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

**Benefits Provided**

PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eye glasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. The MAPDP plan is fully insured by United Healthcare and members are able to have all of their Medicare Part A, Part B, and Part D (prescription drug coverage) in one convenient plan. With the United Healthcare plan for PEEHIP, retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Retirees have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

## **Contributions**

The *Code of Alabama 1975, Section 16-25A-8* and the *Code of Alabama 1975, Section, 16-25A-8.1* provide the Board with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the Board is required to certify to the Governor and the Legislature, the amount, as a monthly premium, necessary to fund the coverage retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the Board for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% percent for each year of service over 25 subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the Board for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the Board for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the Board. This reduction in the employer contribution ceases upon notification to the Board of the attainment of Medicare coverage.

## **OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

At September 30, 2018, the University reported a liability of \$47,557,009 for its proportionate share of the net OPEB liability. The net OPEB liability was measured as of September 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2017. The University proportion of the net OPEB liability was based on a projection of the University long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2017, the University proportion was 0.640289% percent, which was an increase of 0.095418% from its proportion measured as of September 30, 2016.

For the year ended September 30, 2018, the System recognized OPEB expense of \$4,102,975, with no special funding situations. At September 30, 2018, the System reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	4,937,840
Net difference between projected and actual earnings on OPEB plan investments	-	253,196
Changes in proportion and differences between Employer contributions and proportionate share of contributions	6,434,083	-
Employer contributions subsequent to the measurement date	1,460,758	-
Total	<u>\$ 7,894,841</u>	<u>\$ 5,191,036</u>

\$1,460,758 reported as deferred outflows of resources related to OPEB resulting from the University contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2019.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

**Year ended September 30:**

2019	\$ 222,789
2020	222,789
2021	222,789
2022	222,789
2023	286,088
Thereafter	<u>65,803</u>
	<u>\$ 1,243,047</u>

**Actuarial assumptions**

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

Inflation	2.75%
Projected Salary Increases <sup>1</sup>	3.25% - 5.00%
Long-Term Investment Rate of Return <sup>2</sup>	7.25%
Municipal Bond Index Rate at the Measurement Date	3.57%
Municipal Bond Index Rate at the Prior Measurement Date	2.93%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2042
Singe Equivalent Interest Rate the Measurement Date	4.63%
Singe Equivalent Interest Rate the Prior Measurement Date	4.01%
Healthcare Cost Trend Rate	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022

<sup>1</sup>Includes 3.00% wage inflation.

<sup>2</sup>Compounded annually, net of investment expense, and includes inflation.



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

Mortality rates for the period after service retirement are according to 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.

There were no ad hoc postemployment benefit changes, including ad hoc cost of living adjustments, during fiscal year 2017.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the September 30, 2016 valuation were based on a review of recent plan experience done concurrently with the September 30, 2016 valuation.

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be 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 then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return*</b>
Fixed Income	30.00%	4.40%
U.S. Large Stocks	38.00%	8.00%
U.S. Mid Stocks	8.00%	10.00%
U.S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash	5.00%	1.50%
<b>Total</b>	<b>100.00%</b>	

\* Geometric mean, includes 2.5% inflation

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**Discount Rate**

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB 74) used to measure the total OPEB liability at September 30, 2017 was 4.63%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.01%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 27.08% of the employer contributions were used to assist in funding retiree benefit payments in 2016 and it is assumed that the amount will increase by 3.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. The rate used for this purpose is the monthly average of the Bond Buyers General Obligation 20-year Municipal Bond Index Rate. Therefore, the projected future benefit payments for all current plan members were projected through 2115. The long term rate of return is used until the assets are expected to be depleted in 2042, after which the municipal bond rate is used.

**Sensitivity of the University's proportionate share of the net OPEB liability to changes in the healthcare cost trend rates.**

The following table presents the University's proportionate share of the net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (6.75% decreasing to 4% for pre- Medicare, 4% for Medicare Eligible, and 1% for Optional Plans)</b>	<b>Current Healthcare Trend Rate (7.75% decreasing to 5% for pre- Medicare, 5% for Medicare Eligible, and 2% for Optional Plans)</b>	<b>1% Increase (8.75% decreasing to 6% for pre-Medicare, 6% for Medicare Eligible, and 3% for Optional Plans)</b>
Net OPEB Liability	\$ 38,396,643	\$ 47,557,009	\$ 59,376,392

The following table presents the University's proportionate share of the net OPEB liability of the Trust calculated using the discount rate of 4.63%, as well as what the net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	<b>1% Decrease (3.63%)</b>	<b>Current Discount Rate (4.63%)</b>	<b>1% Increase (5.63%)</b>
Net OPEB Liability	\$ 57,486,531	\$ 47,557,009	\$ 39,641,941

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

**OPEB plan fiduciary net position**

Detailed information about the OPEB plan's fiduciary net position is located in the Trust's financial statements for the fiscal year ended September 30, 2017. The supporting actuarial information is included in the GASB Statement No. 74 Report for PEEHIP prepared as of September 30, 2017. Additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

**NOTE 7 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

As of September 30, 2018, the University had been awarded approximately \$1,665,950 in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

**NOTE 8 - ACCOUNTS PAYABLE**

Accounts payable and accrued liabilities represent amounts due at September 30, 2018, for goods and services received prior to the end of the fiscal year.

Salaries and Wages	\$ 5,475,969
Benefits	447,827
Interest Payable	1,490,792
Trad Payables to Vendors	4,034,241
Total Accounts Payable and Accrued Liabilities	<u>\$ 11,448,829</u>

**NOTE 9 – NON-CURRENT LIABILITIES**

Non-Current Liability activity for the year ended September 30, 2018, was as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
2010A Revenue Bonds	\$ 6,065,000	\$ -	\$ (675,000)	\$ 5,390,000
2010B Build America Bonds	25,915,000	-	-	25,915,000
2012 Revenue Bonds	9,720,000	-	(380,000)	9,340,000
2014 Revenue Bonds	32,155,000	-	(630,000)	31,525,000
Total Bonds	<u>73,855,000</u>	<u>-</u>	<u>(1,685,000)</u>	<u>72,170,000</u>
2010A Bond Discount	(28,730)	-	1,240	(27,490)
2010B Bond Discount	(243,436)	-	10,508	(232,928)
2012 Bond Discount	(272,905)	-	15,232	(257,673)
2014 Bond Premium	1,270,884	-	(47,362)	1,223,522
Total Bonds, net	<u>74,580,813</u>	<u>-</u>	<u>(1,705,382)</u>	<u>72,875,431</u>

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

<b>Other Liabilities:</b>				
Net Pension Liability	68,452,000		(5,225,000)	63,227,000
Net OPEB Liability	43,765,331	3,791,678	-	47,557,009
Compensated Absences	<u>1,447,112</u>	<u>-</u>	<u>(135,203)</u>	<u>1,311,909</u>
<b>Total</b>	<b><u>\$ 188,245,256</u></b>	<b><u>\$ 3,791,678</u></b>	<b><u>\$ (7,065,585)</u></b>	<b><u>\$ 184,971,349</u></b>
<b>Less: Current Portion of:</b>				
Bonds Payable	(1,685,000)			(1,735,000)
Bond Discounts	26,980			26,980
Bond Premium	(47,362)			(47,362)
Compensated Absences	<u>(154,333)</u>			<u>(115,938)</u>
<b>Total Current Portion</b>	<b><u>(1,859,715)</u></b>			<b><u>(1,871,320)</u></b>
<b>Total Non-Current Portion</b>	<b><u>\$ 186,385,541</u></b>			<b><u>\$ 183,100,029</u></b>

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.

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 28.4% 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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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:

<b>Fiscal Year</b>	<b>Prepaid Insurance</b>	<b>Bond Discounts</b>	<b>Bond Premium</b>
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	9,954	26,980	47,362
2024-2028	49,770	134,900	236,811
2029-2033	49,770	134,900	236,811
2034-2038	49,770	90,622	236,811
2039-2043	21,568	22,769	236,811
2044-2045	-	-	39,468
Totals	<u>\$ 220,648</u>	<u>\$ 518,091</u>	<u>\$ 1,223,522</u>

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

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
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	2,070,000	2,639,611	4,709,611
2024-2028	11,830,000	11,843,147	23,673,147
2029-2033	14,490,000	9,297,279	23,787,279
2034-2038	17,930,000	5,867,036	23,797,036
2039-2043	16,470,000	1,837,220	18,307,220
2044-2045	1,975,000	40,734	2,015,734
Totals	<u>\$ 72,170,000</u>	<u>\$ 42,933,240</u>	<u>\$ 115,103,240</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, 2018, the University received \$543,370 in interest subsidy payments



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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 \$115,103,240 are pledged to repay principal and interest on the bonds at September 30, 2018. Pledged revenues in the amount of \$64,394,876 were received during the fiscal year ended September 30, 2018, with \$4,744,680 or 7.37% 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 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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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**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, 2018, funding received for contracts and grants which has not been expended as of September 30, 2018, as well as athletic revenue related to games played subsequent to September 30, 2018.

Unearned revenues at September 30, 2018 are as follows:

Tuition and Fees, Net	\$ 21,181,782
Federal, State, and Local Government Grants and Contracts	3,273,618
Auxiliary Revenues, Net	3,904,252
Athletic Revenue	56,670
Other Revenue	9,190
Total Unearned Revenue	<u>\$ 28,425,512</u>

**NOTE 13 – RECENTLY ISSUED ACCOUNTING STANDARDS**

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

- 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. 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, 2018, pledges receivable to the Foundation from the Alumni Association and University Board of

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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Trustees/Foundation Board Members were \$57,945. The Foundation has payables to the University of \$87,469 at September 30, 2018. The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was \$23,986 for the year ending September 30, 2018. The Foundation employees are paid by the University. The salaries and benefits and supplies for year ending September 30, 2018, were \$848,177.

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 \$30,000 at September 30, 2018. The Foundation owes \$153,973 to the Sportsman's Club at September 30, 2018.

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 \$33.869 million under these programs during the fiscal year ended September 30, 2018.

**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.

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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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, 2018, \$9,386,482 is restricted for scholarship purposes while \$1,823,688 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 balances at September 30, 2018, \$21,290,552 is restricted for scholarship purposes while \$4,136,516 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, 2018 is as follows:

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

	<u>Temporary</u>	<u>Permanent</u>
Program Services	\$ 6,737,019	\$ 29,000
Instruction	343,389	-
Scholarships	<u>643,080</u>	<u>-</u>
Total	<u>\$ 7,723,488</u>	<u>\$ 29,000</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.

***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 \$66,554 at September 30, 2018.

***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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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 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.



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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***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, 2018, 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, 2018, these restricted certificates of deposit totaled \$511,042 and exceeded FDIC insurable limits by \$261,042. The Foundation also has unrestricted certificate of deposits with a certain bank. At September 30, 2018, these unrestricted certificates of deposit totaled \$4,032,298 and exceeded FDIC insurable limits by \$3,782,298.

**Investments**

The Foundation's endowment consists of approximately 270 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

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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, 2018, there were \$371,659 in deficiencies transferred to unrestricted net assets from temporary net assets related to investment losses.

Changes in endowment net assets as of September 30, 2018, are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets – 10/1/2017	\$ (369,658)	\$ 4,485,453	\$ 23,111,680	\$ 27,227,475
Contributions, net			2,185,079	2,185,079
Investment income	-	2,148,946	-	2,148,946
Endowment Deficiencies	(2,001)	2,001	-	-
Amounts appropriated for expenditure	-	(878,981)	-	(878,981)
Transfer	<u>-</u>	<u>-</u>	<u>130,309</u>	<u>130,309</u>
Endowment net assets – 9/30/2018	<u>\$ (371,659)</u>	<u>\$ 5,757,419</u>	<u>\$ 25,427,068</u>	<u>\$ 30,812,828</u>

For the year ending September 30, 2018, investment management fees and investment income activity fees were \$133,194 and \$8,841, 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	\$ 1,971,040	\$ 4,929	\$ 1,975,969
Marketable Mutual Funds	5,974,559	402,426	6,376,985
Limited Partnerships	<u>22,391,731</u>	<u>-</u>	<u>22,391,731</u>
Total Investments	<u>\$ 30,337,330</u>	<u>\$ 407,355</u>	<u>\$ 30,744,685</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.

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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>At NAV</u>	<u>Total</u>
Certificates of Deposit	\$ 4,543,340	\$ -	\$ -	\$ -	\$ 4,543,340
Money Market	1,975,969	-	-	-	1,975,969
Mutual Funds:					-
PIMCO - Fixed Income	2,896,013	-	-	-	2,896,013
Vanguard Total Bond	2,514,388	-	-	-	2,514,388
First Eagle Global Fund	265,900	-	-	-	265,900
Gotham Neutral Fund	121,000	-	-	-	121,000
Tortoise MLP & Pipeline	579,684	-	-	-	579,684
Total Mutual Funds	6,376,985	-	-	-	6,376,985
Limited Partnerships:					
U.S. Equity	-	-	-	8,080,880	8,080,880
International Equity	-	-	-	2,907,343	2,907,343
Emerging Markets	-	-	-	719,596	719,596
Hedged Equity	-	-	-	8,091,596	8,091,596
Fixed Income	-	-	-	1,462,556	1,462,556
Opportunistic	-	-	-	95,085	95,085
Real Assets	-	-	-	404,374	404,374
Private Equity	-	-	-	630,301	630,301
Total Limited Partnerships				22,391,731	22,391,731
	<u>\$ 12,896,294</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,391,731</u>	<u>\$ 35,288,025</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>2018</u>	Unfunded Commitments at September 30, <u>2018</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice</u> <u>Period</u>
U.S. Equity (a)	\$ 8,080,880	\$ -	Quarterly	60 Days
International Equity (b)	2,907,343	-	Quarterly	60 Days
Emerging Markets (c)	719,596	-	Annual	30 Days
Hedged Equity (d)	8,091,596	-	Annual	90 Days
Fixed Income (e)	1,462,556	-	Monthly	10 Days
Opportunistic (f)	95,085	81,830	Annual	90 Days
Real Assets (g)	404,374	640,000	Annual	90 Days
Private Equity (h)	630,301	520,000	Annual	90 Days
Total	<u>\$ 22,391,731</u>	<u>\$ 1,241,830</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.

### **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%.



**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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Total pledge receivables, net of an allowance for uncollectible pledges and discounted to present value at September 30, 2018, are as follows:

	Less Than One <u>Year</u>	One to Five <u>Years</u>	<u>Total</u>
Pledges			
Gross	\$ 982,527	\$ 1,033,388	\$ 2,015,915
Allowance	-	(44,702)	(44,702)
Discount	<u>-</u>	<u>(66,554)</u>	<u>(66,554)</u>
Total Pledges	<u>\$ 982,527</u>	<u>\$ 922,132</u>	<u>\$ 1,904,659</u>

**Fixed Assets**

Fixed assets consisted of the following at September 30, 2018:

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, 2018 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.

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.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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, 2018 are as follows:

	Gift Annuities <u>Assets</u>	Total <u>Assets</u>
Cash & Money Market	\$ 4,929	\$ 4,929
Mutual Funds	<u>402,426</u>	<u>402,426</u>
	<u>\$ 407,355</u>	<u>\$ 407,355</u>

Changes in obligations under the gift annuity and remainder trust contracts at September 30, 2018, were as follows:

	Gift Annuities <u>Liabilities</u>	Remainder Trusts <u>Liabilities</u>	Total Split- Interest <u>Liabilities</u>
Total Obligation at September 30, 2017	\$ 292,598	\$ 113,315	\$ 405,913
Obligation on New Gifts	-	-	-
Payments to Beneficiaries	(38,399)	-	(38,399)
Actuarial Value Changes	<u>23,232</u>	<u>(113,315)</u>	<u>(90,083)</u>
Total Obligation at September 30, 2018	<u>\$ 277,431</u>	<u>\$ -</u>	<u>\$ 277,431</u>
Current Portion	\$ 38,399	\$ -	\$ 38,399
Non-Current Portion	<u>239,032</u>	<u>-</u>	<u>239,032</u>
	<u>\$ 277,431</u>	<u>\$ -</u>	<u>\$ 277,431</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.

**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, 2018, the Foundation expensed \$7,725,800 in support of the University's programs and scholarships. At September 30, 2018, pledge receivables from the Alumni Association and University Board of Trustees/Foundation Board of Directors were \$25,000 and \$57,945 respectively. The Foundation has payables to the University of \$87,469.

**University of North Alabama**  
**Notes to the Financial Statements**  
**For the Year Ended September 30, 2018**

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***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 \$23,986 for the year ending September 30, 2018. Furthermore, the Foundation employees are paid by the University. The salaries and benefits and supplies for year ending September 30, 2018, were \$848,177. Supplies paid by the University for the Foundation totaled \$28,711 for the year ending September 30, 2018.

***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, 2018, the liability associated with such funds was \$153,973. The Foundation also has a pledge receivable from the Sportsman's Club of \$30,000 at September 30, 2018.

**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**

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	<b>For the measurement period ended September 30, <u>2017</u></b>	<b>For the measurement period ended September 30, <u>2016</u></b>	<b>For the measurement period ended September 30, <u>2015</u></b>	<b>For the measurement period ended September 30, <u>2014</u></b>
UNA's proportion of the net pension liability	0.643305%	0.632297%	0.6399%	0.6189%
UNA's proportionate share of the net pension liability	\$63,227,000	\$68,452,000	\$66,978,000	\$56,228,000
UNA's covered-employee payroll	\$42,790,190	\$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	147.76	169.45%	165.22%	135.88%
Plan fiduciary net position as a percentage of the total pension liability	71.50%	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 four years of information, rather than ten years, as only four years of trend information is available at September 30, 2018.

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

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	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2016</b></u>	<u><b>2015</b></u>
Contractually Required Contribution	\$ 5,282,992	\$ 5,028,999	\$ 4,746,066	\$ 4,714,970
Contributions in relation to the contractually required contribution	<u>5,282,992</u>	<u>5,028,999</u>	<u>4,746,066</u>	<u>4,714,970</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
System's covered-employee payroll	\$44,402,602	\$42,790,190	\$40,395,642	\$40,538,730
Contributions as a percentage of covered-employee payroll	11.90%	11.75%	11.75%	11.63%

**Notes to the Schedule of University Pension Contributions**

This schedule presents only four years of information, rather than ten years, as only four years of trend information is available at September 30, 2018.



**University of North Alabama****Schedule of University of North Alabama's Proportionate Share of the Net OPEB Liability  
Alabama Retired Education Employees Health Care Trust**

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	<b>For the measurement period ended September 30, <u>2017</u></b>
UNA's proportion of the net OPEB liability	0.640289%
UNA's proportionate share of the net OPEB liability	\$47,557,009
UNA's covered-employee payroll	\$42,790,190
UNA's proportionate share of the net OPEB liability as a percentage of its covered-employee payroll	111.14%
Plan fiduciary net position as a percentage of the total OPEB liability	15.37%

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

This schedule presents only one year of information, rather than ten years, as only one year of trend information is available at September 30, 2018.

**University of North Alabama**  
**Schedule of University of North Alabama's OPEB Contributions**  
**Alabama Retired Education Employees Health Care Trust**

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	<b>For the measurement period ended September 30, <u>2018</u></b>
Contractually Required Contribution	\$ 1,460,775
Contributions in relation to the contractually required contribution	\$ (1,460,775)
Contribution deficiency (excess)	\$ -
 System's covered-employee payroll	 \$44,402,602
Contributions as a percentage of covered-employee payroll	3.29%

**Notes to the Schedule of University OPEB Contributions**

This schedule presents only one year of information, rather than ten years, as only one year of trend information is available at September 30, 2018.

## **Additional Information**

**University of North Alabama**  
**Listing of University Officials**  
**October 1, 2017 through September 30, 2018**

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**Officials**

Kenneth D. Kitts

Evan M. Thornton

Shauna L. James

**Position**

President

Vice-President of Financial Affairs

Director of Student Financial Services

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**PART II**

**REPORTS ON COMPLIANCE AND INTERNAL CONTROL**

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**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, 2018, and the related notes to the financial statements, and have issued our report thereon dated March 1, 2019. 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.

***CDPA, PC***

Florence, Alabama  
March 1, 2019

**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, 2018. 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 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, 2018.

## **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  
March 1, 2019

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**PART III**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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**University of North Alabama**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended September 30, 2018**

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<b><u>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Pass-Through Entity Identifying Number</u></b>	<b><u>Passed Through to Subrecipients</u></b>	<b><u>Total Federal Expenditures</u></b>
<b>MAJOR PRGRAMS</b>				
<b><u>Student Financial Assistance Cluster</u></b>				
<b><u>U.S. Department of Education Direct Programs</u></b>				
Federal Pell Grant Program	84.063	N.A.	\$ -	\$ 10,981,782
Federal Direct Student Loans	84.268	N.A.	-	33,811,994
Federal Work-Study Program	84.033	N.A.	-	275,635
Federal Supplemental Education Opportunity Grants	84.007	N.A.	-	211,351
<b><u>U.S. Department of Health and Human Services</u></b>				
Scholarships for Health Profession Students from Disadvantaged Backgrounds	93.925	N.A.	-	573,450
<b>Total Student Financial Assistance Cluster</b>			-	45,854,212
<b><u>U.S. Department of the Interior Direct Programs</u></b>				
National Heritage Area Federal Financial Assistance	15.939	N.A.	41,551	291,381
<b>Total Major Programs</b>			\$ 41,551	\$ 46,145,593

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, 2018**

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<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b>NON-MAJOR PROGRAMS</b>				
<b><u>U.S. Department of the Interior Direct Programs</u></b>				
National Park Service Conservation, Protection, Outreach, and Education	15.954	N.A.	-	55,904
Historic Preservation Fund Grants-In-Aid	15.904	N.A.	-	1,936
<b><u>Child Nutrition Cluster</u></b>				
<b><u>U.S. Department of Agriculture Passed Through Lauderdale County Board of Education</u></b>				
National School Lunch Program	10.555	N.A.	-	15,777
<b><u>Small Business Administration Passed Through the University of Alabama</u></b>				
Small Business Development Center	59.037	SBAH-16-B-0019	-	71,993
<b><u>U.S. Department of Defense Passed Through the University of Alabama</u></b>				
Procurement Technical Assistance for Business Firms	12.002	SP4800-17-2-1701 SP4800-18-2-1801	-	21,897
<b><u>Appalachian Regional Commission Passed Through Shoals Economic Development Center</u></b>				
Appalachian Regional Development	23.001	PW-18626-IM-16	-	93,762
<b><u>National Science Foundation Passed Through University of Tuskegee</u></b>				
Engineering Grant	47.041	EEC-1744467	-	5,071
<b><u>U.S. Department of Health and Human Services Passed Through UCP of Huntsville &amp; Tennessee Valley, Inc.</u></b>				
Lifespan Respite Care Program	93.072	HHS-2017-ACL- CIP-LRLI-0230	-	750

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, 2018**

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<b>Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
<b><u>U.S. Department of Health and Human Services Direct Programs</u></b>				
Occupational Safety and Health Program	93.262	N.A.	-	60,564
<b><u>U.S. Department of Education Passed through Alabama State Department of Education</u></b>				
Mathematics and Science Partnerships	84.366	U700136/U800113	-	278,721
Improving Teacher Quality State Grants	84.367	U800165	-	100,000
<b><u>National Science Foundation Passed Through University of Alaska Fairbanks</u></b>				
Geosciences	47.050	UAF 15-0061	-	14,278
<b><u>National Endowment for the Humanities</u></b>				
Promotion of the Humanities – Federal/State Partnership	45.129	0617-2377MJ	-	2,190
<b>Total Non-Major Programs</b>			-	722,843
<b>Total Federal Awards</b>			<u>\$ 41,551</u>	<u>\$ 46,868,436</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, 2018**

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**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, 2018. 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, 2018 totaled \$257,875, 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, 2018**

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**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 \$34 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, 2018.

Federal Grants and Contracts – Operating Revenue	\$ 1,875,979
Federal Grants – Nonoperating Revenue	11,593,254
Fall 2018 Deferred Pell Grant Revenue	3,273,618
Fall 2017 Deferred Pell Grant Revenue	(3,686,409)
Federal Direct Student Loans	<u>33,811,994</u>
Expenditures per Schedule of Expenditures of Federal Awards	<u>\$ 46,868,436</u>

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## **PART IV**

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

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**University of North Alabama**  
**Schedule of Findings and Questioned Costs**  
**For the Year Ended September 30, 2018**

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**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)? \_\_\_ yes    \_x\_ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
15.939	National Heritage Area Federal Financial Assistance
	<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.

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

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

## Status of Prior Year Findings and Questioned Costs

### Reference: 2017-001

Type: Student Financial Aid Funding

During the prior year, it was noted that 1 student 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.

The University adjusted the students account and implemented additional control procedures to ensure Pell Grant funds are properly disbursed by running reports at the beginning of each semester to ensure that all awarded students are disbursed funds in banner.

Person Responsible:

Shauna James

Director of Student Financial Services

Status: Resolved

