

FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2006 and 2005

CONTENTS

Independent Auditors' Report.....	1
Financial Statement:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses – Program Services	4
Statement of Functional Expenses – Support Services	5
Statement of Cash Flows.....	6
Notes to Financial Statements	7-11

Patterson, Prince and Associates, P.C.

Certified Public Accountants

475 South Seminary Street • Florence, Alabama 35630 • 256/766/8915 FAX 256/766/8920

Lisa C. Patterson, CPA

Rita M. Prince, CPA

Tammy T. Jumper, CPA

*Members,
American Institute
of
Certified Public Accountants*

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University of North Alabama Foundation

We have audited the accompanying statements of financial position of University of North Alabama Foundation (a nonprofit organization) as of September 30, 2006 and 2005 and the related statements of activities, functional expenses, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of North Alabama Foundation as of September 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Patterson, Prince and Associates, P.C.

Florence, Alabama
December 11, 2006

STATEMENT OF FINANCIAL POSITION

University of North Alabama Foundation

September 30, 2006 and 2005

<u>ASSETS</u>		
<u>Current Assets:</u>	<u>2006</u>	<u>2005</u>
Cash and Cash Equivalents	\$ 5,096,649	\$ 5,306,991
Accounts Receivable	12,062	7,025
Pledges Receivable	514,386	329,488
Inventories	46,766	48,659
Interest Receivable	8,518	12,224
<u>Total Current Assets</u>	<u>5,678,381</u>	<u>5,704,387</u>
<u>Investments:</u>		
Cash Restricted for Long Term Investment	160,855	10,711
Investments	9,508,439	8,195,854
<u>Total Investments</u>	<u>9,669,294</u>	<u>8,206,565</u>
<u>Fixed Assets:</u>		
Donated Artifacts and Collectibles	183,650	176,650
Furniture and Equipment	34,064	34,064
	217,714	210,714
Less: Accumulated Depreciation	31,459	27,671
<u>Total Fixed Assets</u>	<u>186,255</u>	<u>183,043</u>
<u>Other Assets</u>		
Investment - Campus Projects, LLC	30,000	30,000
Other Assets	90,503	179,740
<u>Total Other Assets</u>	<u>120,503</u>	<u>209,740</u>
<u>TOTAL ASSETS</u>	<u>\$ 15,654,433</u>	<u>\$ 14,303,735</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENT OF FINANCIAL POSITION

University of North Alabama Foundation

September 30, 2006 and 2005

LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>	2006	2005
Accounts Payable	\$ 2,896	\$ 68
Obligations under Annuity Contracts - Current Portion	<u>58,725</u>	<u>60,719</u>
<u>Total Current Liabilities</u>	61,621	60,787
Obligations under Annuity Contracts - Deferred Portion	<u>340,932</u>	<u>364,046</u>
<u>Total Liabilities</u>	402,553	424,833
<u>Net Assets:</u>		
Unrestricted	355,319	391,050
Temporarily Restricted	3,671,014	2,768,827
Permanently Restricted	<u>11,225,547</u>	<u>10,719,025</u>
<u>Total Net Assets</u>	15,251,880	13,878,902
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 15,654,433</u>	<u>\$ 14,303,735</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENT OF ACTIVITIES

University of North Alabama Foundation

For the Year Ended September 30, 2006

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
<u>SUPPORT AND REVENUE:</u>				
<u>Support:</u>				
Donations	\$ 78,526	\$ 440,239	\$ 500,524	\$ 1,019,289
In-Kind Donations	7,000	-	-	7,000
Other Income	-	69,403	-	69,403
Transfers	9,480	(15,478)	5,998	0
Net Assets Released from Restriction	490,713	(490,713)	-	-
<u>Total Support</u>	585,719	3,451	506,522	1,095,692
<u>Revenue:</u>				
Interest Income	15,091	436,637	-	451,728
Net Unrealized and Realized Gain on Investments	-	462,099	-	462,099
<u>Total Revenue</u>	15,091	898,736	-	913,827
<u>TOTAL SUPPORT AND REVENUE</u>	600,810	902,187	506,522	2,009,519
 <u>EXPENSES:</u>				
Program Services	437,499	-	-	437,499
Support Services	199,042	-	-	199,042
<u>TOTAL EXPENSES</u>	636,541	-	-	636,541
 Net Change in Assets	(35,731)	902,187	506,522	1,372,978
<u>Net Assets at Beginning of Year</u>	391,050	2,768,827	10,719,025	13,878,902
<u>NET ASSETS AT END OF YEAR</u>	<u>\$ 355,319</u>	<u>\$ 3,671,014</u>	<u>\$ 11,225,547</u>	<u>\$ 15,251,880</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES

Schedule of Program Services

University of North Alabama Foundation

For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
Scholarships Awarded	\$ 167,902	\$ 136,656
Eminent Scholars Support	62,793	131,522
Academic Program Support	38,901	35,522
Alumni Program Support	45,099	28,567
Annuities	37,254	42,828
Other Program Support	<u>85,550</u>	<u>353,525</u>
<u>TOTAL PROGRAM SERVICES</u>	<u>\$ 437,499</u>	<u>\$ 728,620</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES

Schedule of Support Services

University of North Alabama Foundation

For the Year Ended September 30, 2006

	Management & General	Fund Raising	Total Support Services
	<u> </u>	<u> </u>	<u> </u>
Contract Services - Other	\$ 84,810	\$ 750	\$ 85,560
Supplies	5,203	14,517	19,720
Cost of Sales	-	115	115
Meals	10,045	8,378	18,423
Travel	1,377	1,166	2,543
Postage	1,701	4,619	6,320
Legal & Accounting	11,051	-	11,051
Telephone	1,149	-	1,149
Insurance	8,754	-	8,754
Depreciation	3,788	-	3,788
Printing and Copying	3,134	8,922	12,056
Membership Dues	1,996	4,750	6,746
Advertising	-	484	484
Credit Card Fees	25	15	40
Software & Maintenance	3,607	4,313	7,920
Staff Development	2,190	198	2,388
Gifts & Flowers	6,489	122	6,611
Fundraisers & Volunteers	-	193	193
Awards	50	4,671	4,721
Miscellaneous Expenses	460	-	460
	<u> </u>	<u> </u>	<u> </u>
<u>TOTAL SUPPORT SERVICES</u>	<u>\$ 145,829</u>	<u>\$ 53,213</u>	<u>\$ 199,042</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENT OF FUNCTIONAL EXPENSES
Schedule of Support Services

University of North Alabama Foundation

For the Year Ended September 30, 2005

	Management & General	Fund Raising	Total Support Services
Contract Services - Executive Director	\$ 50,000	\$ -	\$ 50,000
Contract Services - Other	76,496	2,020	78,516
Supplies	5,839	12,487	18,326
Meals	13,313	6,226	19,539
Travel	1,184	3,813	4,997
Postage	708	5,187	5,895
Legal & Accounting	10,309	-	10,309
Telephone	1,352	-	1,352
Insurance	8,513	-	8,513
Depreciation	3,788	-	3,788
Printing and Copying	412	4,769	5,181
Membership Dues	2,081	3,400	5,481
Credit Card Fees	165	141	306
Software & Maintenance	5,228	11,735	16,963
Staff Development	980	750	1,730
Gifts & Flowers	5,559	50	5,609
Fundraisers & Volunteers	-	114	114
Awards	-	2,123	2,123
Miscellaneous Expenses	364	4,998	5,362
<u>TOTAL SUPPORT SERVICES</u>	<u>\$ 186,291</u>	<u>\$ 57,813</u>	<u>\$ 244,104</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENT OF CASH FLOWS

University of North Alabama Foundation

For the Years Ended September 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 1,372,978	\$ 913,075
Adjustments to Reconcile Change in Net Assets to Net Cash used for Operating Activities:		
Depreciation	3,788	3,788
Realized and Unrealized Gain on Sale of Investments	(450,796)	(418,007)
(Increase) Decrease in Accounts Receivable	(5,037)	22,639
(Increase) Decrease in Pledges Receivable	(186,271)	81,328
Decrease (Increase) in Inventory	1,894	(16,412)
Decrease in Interest Receivable	3,706	32,013
Decrease in Other Assets	89,237	72,789
Increase in Accounts Payable	2,828	68
Increase (Decrease) in Amortization of Discount on Pledges Receivable	1,372	(2,358)
(Decrease) in Obligation Under Annuity Contracts	(25,108)	(18,554)
In-Kind Donation of Artifacts and Collectibles	(7,000)	(135,000)
Contributions Restricted for Investment	(499,333)	(329,379)
Net Cash Provided by Operating Activities	302,258	205,990
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
(Purchase) Sale of Investments	(1,011,933)	269,204
Net Cash (Used) Provided by Investing Activities	(1,011,933)	269,204
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Contributions Restricted for Permanent Investment	499,333	329,379
Net Cash Provided by Financing Activities	499,333	329,379
Net (Decrease) Increase in Cash and Cash Equivalents	(210,342)	804,573
Cash and Cash Equivalents at Beginning of Year	5,306,991	4,502,418
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 5,096,649</u>	<u>\$ 5,306,991</u>

The Accompanying Notes are an Integral Part of these Financial Statements

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2006 and 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION'S ACTIVITIES

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

BASIS OF PRESENTATION

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

CONTRIBUTIONS

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

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

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

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

PLEDGES (Promises to Give)

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

ACCOUNTING METHOD

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

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2006 and 2005

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

CASH AND CASH EQUIVALENTS

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

EQUIPMENT

Equipment is carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 7 years. As permitted by SFAS No. 93, the Foundation does not recognize depreciation on fine art and furniture collectibles. In addition, the Foundation utilizes certain facilities and equipment owned by the University. Such facilities and equipment are not recorded on the books of the Foundation.

INCOME TAXES

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

FUNCTIONAL ALLOCATION OF EXPENSES

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

ESTIMATES

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

INVESTMENTS

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

INVENTORIES

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

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2006 and 2005

NOTE 2: PLEDGES RECEIVABLE

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

	<u>2006</u>	<u>2005</u>
Total Pledges Receivable	\$ 520,520	\$ 334,250
Unamortized Discount	<u>6,134</u>	<u>4,762</u>
<u>NET PLEDGES RECEIVABLE</u>	<u>\$ 514,386</u>	<u>\$ 329,488</u>

NOTE 3: INVESTMENTS

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2006 and 2005

NOTE 3: INVESTMENTS (Continued)

Investments as of September 30 are summarized as follows:

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

NOTE 4: FIXED ASSETS

Fixed Assets consisted of the following at September 30:

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

NOTE 5: PROGRAM SUPPORT

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

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

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2006 and 2005

NOTE 6: NET ASSETS RELEASED FROM RESTRICTIONS:

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

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

NOTE 7: NATURE AND AMOUNT OF TEMPORARILY RESTRICTED NET ASSETS:

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

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

NOTE 8: NATURE AND AMOUNT OF PERMANENTLY RESTRICTED NET ASSETS:

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

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

Patterson, Prince and Associates, P.C.

Certified Public Accountants

475 South Seminary Street • Florence, Alabama 35630 • 256/766/8915 FAX 256/766/8920

Lisa C. Patterson, CPA

Rita M. Prince, CPA

Tammy T. Jumper, CPA

*Members,
American Institute
of
Certified Public Accountants*

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL STRUCTURE

To the Board of Directors
University of North Alabama Foundation
Florence, Alabama

We have audited the financial statements of the University of North Alabama Foundation (a nonprofit organization) as of and for the year ended September 30, 2006, and have issued our report thereon, dated December 11, 2006.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the University of North Alabama Foundation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of University of North Alabama Foundation for the year ended September 30, 2006, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one

or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the board of directors and management. However, this report is a matter of public record and its distribution is not limited.

Patterson, Prince and Associates P.C.

Florence, Alabama
December 11, 2006