

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

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*Members,
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of
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
University of North Alabama Foundation

We have audited the accompanying statement of financial position of University of North Alabama Foundation (a nonprofit organization) as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the year 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. The prior year summarized comparative information has been derived from University of North Alabama Foundation 2011 financial statements and, in our report dated January 3, 2012, we expressed an unqualified opinion on those financial statements.

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 audits provide 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, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Patterson Prince and Associates, P.C.

Florence, Alabama
December 14, 2012

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Board of Directors
University of North Alabama Foundation
Florence, Alabama

In planning and performing our audit of the financial statements of University of North Alabama Foundation as of and for the year ended September 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered University of North Alabama Foundation's internal control over financial reporting as a basis for designing 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 Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. 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.

This communication is intended solely for the information and use of management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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Florence, Alabama

December 14, 2012

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However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated December 14, 2012 on the financial statements of the University of North Alabama Foundation. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

Segregation of Duties

The financial manager presently has authority to generate and print computer signed checks, controls the distributions of disbursements, reconciles the bank statements and prepares the financial statements. As a result, fraudulent cash disbursements could be processed without being detected on a timely basis. We would suggest that the segregation of duties be reviewed and adjusted where possible to strengthen the system of internal control.

Annual Budget

It was noted during the audit that an annual budget was not prepared for the Foundation. The format of the budget should closely match that of the financial statements and include all unrestricted financial activity. This will allow for useful comparisons between budgeted and actual financial information as well as enable better management of unrestricted spending. We strongly recommend that the budget process be more closely reviewed regarding areas where cost savings can occur and revenues may be increased. Success in achieving these goals is critical for the Foundation.

Pledge Receivables

Numerous adjustments related to pledge receivables were noted during our audit of the financial statements. During our audit, it was noted that conditional pledges were being included in pledge receivables and revenue prior to all the conditions being met. We recommend that the Foundation evaluate pledge receivables for any conditions included within the agreement. Any pledges determined to have conditional aspects should be noted for disclosure, but not recorded as receivable or revenue until the conditions of the pledge are met.

We noted that the Foundation had not discounted pledge receivables to their present value or recorded an allowance for doubtful accounts. The Foundation should adjust pledge receivable balances to present value and record a discount associated with the pledge receivable balance. Further, the Foundation should analyze outstanding pledge receivables for any pledges believed to not be collectible and write off these balances. The Foundation should estimate the amount of additional pledges believed to be uncollectible and record an allowance for doubtful accounts based on this estimate.

The Foundation is currently accounting for pledge receivables using a system that does not integrate with the general ledger software. We recommend that the Foundation consider integrating the pledge receivable database with the general ledger software. We further recommend that the Foundation reconcile pledge receivables to the general ledger in total and by restriction on a monthly basis.

Investments

The Foundation should be preparing a rollforward of the investment balance on a monthly basis and agreeing the calculated balance to the general ledger.

In-Kind Donations

It was noted during our audit that in-kind donations were not being recorded timely. The Foundation should be recording in-kind donations for goods or services received as the transactions are occurring. Further, the Foundation should not value donations for acknowledgments sent to donors.

Net Assets

During our audit, we noted items that were not properly recorded according to their restrictions. We recommend the Foundation roll forward its net asset balances in total and by restriction and reconcile to the general ledger on a monthly basis.

This communication is intended solely for the information and use of management, and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

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Florence, Alabama

December 14, 2012

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To the Board of Directors
University of North Alabama Foundation

We have audited the financial statements of University of North Alabama Foundation for the year ended September 30, 2012, and have issued our report thereon dated December 14, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 13, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by University of North Alabama Foundation are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during year ending September 30, 2012. We noted no transactions entered into by the Foundation during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the fair market value of their investments is based on quoted prices in active markets for identical assets and significant other observable inputs. Also, management has estimated the discount rate on pledge receivables based on the Wells Fargo discount rate on annuities. We evaluated the key factors and assumptions used to develop the market value in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 1: Summary of Significant Accounting Policies
- Note 2: Promises to Give
- Note 3: Conditional Promises to Give
- Note 4: Fair Value Measurements
- Note 5: Fixed Assets
- Note 6: Restrictions on Net Assets
- Note 7: Annuity Gifts and Obligations
- Note 8: Functional Allocation of Expenses
- Note 9: Related Party Transactions
- Note 10: Subsequent Events
- Note 11: Uncertain Tax Positions

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. See attachment for material misstatements detected as a result of our audit procedures and corrected by management.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 14, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Foundation's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

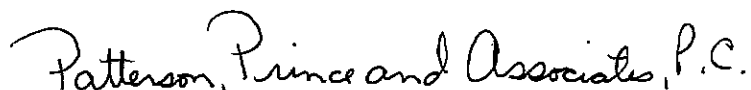
Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Information in Documents Containing Audited Financial Statements

This information is intended solely for the use of Board of Directors and management of University of North Alabama Foundation and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Patterson, Prince and Associates, P.C.".

Patterson, Prince and Associates, P.C.
December 14, 2012

[illegible]

18	02-6050 Program Support {Program}	K	N01.01					
	02-2500 Accounts Payable {Program}	K	N01.01	(161,758.13)				161,758.13
	To record liability excluded from 9/30/12 payable balance.							
19	02-6050 General Program Support {Program}	K	N03					
	02-2500 Accounts Payable {Program}	K	N03	(26,625.00)				26,625.00
	To record liability excluded from 9/30/12 payable balance.							
20	02-5010 Salaries and Wages {Instruction}	K	N03					
	02-5020 Benefits {Instruction}	K	N03					20,438.50
	02-2505 Payable to University	K	N03	(27,213.50)				6,775.00
	To record payable to University for eminent scholar excluded from 9/30/12 payable balance.							
Total				(389,805.43)	(278,350.96)	238,999.99	7,633.15	421,523.25
	Less Audit Adjustments Subsequently Booked							
Net Unadjusted AD - Current Year (Iron Curtain Method)				(389,805.43)	(278,350.96)	238,999.99	7,633.15	421,523.25
Effect of Unadjusted AD - Prior Year				-	-	-	-	-
Combined Current and Prior Year (Rollover Method)				(389,805.43)	(278,350.96)	238,999.99	7,633.15	421,523.25
Financial Statement Caption Totals				22,019,483	847,453	21,172,030	5,897,575	2,159,766
Current Year AD as % of FS Captions (Iron Curtain Method)				-1.77%	-32.85%	1.13%	0.13%	19.52%
Current and Prior Year AD as a % of FS Captions (Rollover Method)				-1.77%	-32.85%	1.13%	0.13%	19.52%

FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012 and 2011

CONTENTS

Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Functional Expenses – Program Services.....	4
Statements of Functional Expenses – Support Services.....	5
Statements of Cash Flows	6
Notes to Financial Statements	7-14

STATEMENTS OF FINANCIAL POSITION

University of North Alabama Foundation

September 30, 2012 and 2011

	September 30	
	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>		
<u>Current Assets:</u>		
Cash and Cash Equivalents	\$ 2,419,906	\$ 1,813,271
Accounts Receivable	4,558	58,350
Pledges Receivable	446,774	187,533
Prepaid Expense	-	5,250
Inventories	10,863	3,298
Interest Receivable	<u>26,924</u>	<u>16,832</u>
<u>Total Current Assets</u>	\$ 2,909,025	\$ 2,084,534
<u>Investments:</u>		
Cash Restricted for Long Term Investment	\$ 207,410	\$ 106,958
Investments	<u>17,529,895</u>	<u>15,501,731</u>
<u>Total Investments</u>	\$ 17,737,305	\$ 15,608,689
<u>Fixed Assets:</u>		
Donated Artifacts and Collectibles	\$ 273,950	\$ 273,950
Furniture and Equipment	<u>34,064</u>	<u>34,064</u>
	\$ 308,014	\$ 308,014
Less: Accumulated Depreciation	<u>34,064</u>	<u>34,064</u>
<u>Total Fixed Assets</u>	\$ 273,950	\$ 273,950
<u>Other Assets</u>		
Pledges Receivable (Net) Non-Current	<u>\$ 1,099,204</u>	<u>\$ 292,104</u>
<u>Total Other Assets</u>	<u>\$ 1,099,204</u>	<u>\$ 292,104</u>
<u>TOTAL ASSETS</u>	<u>\$ 22,019,483</u>	<u>\$ 18,259,277</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF FINANCIAL POSITION

University of North Alabama Foundation

September 30, 2012 and 2011

	September 30
	2012
	2011
<u>LIABILITIES AND NET ASSETS</u>	
<u>Current Liabilities:</u>	
Accounts Payable	\$ 438,941
Unearned Revenue	11,340
Obligations under Annuity Contracts - Current Portion	69,992
<u>Total Current Liabilities</u>	<u>\$ 520,272</u>
<u>Long-Term Liabilities:</u>	
Obligations under Annuity Contracts - Deferred Portion	\$ 327,181
<u>Total Long-Term Liabilities</u>	<u>\$ 327,181</u>
<u>Total Liabilities</u>	<u>\$ 847,453</u>
<u>Net Assets:</u>	
Unrestricted	\$ 125,566
Temporarily Restricted	5,908,755
Permanently Restricted	15,137,709
<u>Total Net Assets</u>	<u>\$ 21,172,030</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$ 22,019,483</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF ACTIVITIES

University of North Alabama Foundation

For the Year Ended September 30, 2012 with Summarized Financial Information for the Year Ended September 30, 2011

	2012				2011
	UNRESTRICTED	TEMPORARILY RESTRICTED	PERMANENTLY RESTRICTED	TOTAL	TOTAL
<u>SUPPORT AND REVENUE:</u>					
<u>Support:</u>					
Contributions	\$ 190,531	\$ 2,265,910	\$ 469,340	\$ 2,925,781	\$ 2,845,751
In-Kind Donations	59,897	60,968	-	120,865	359,970
Other Income	1,204	226,811	-	228,015	221,393
Transfers	173,374	(164,322)	(9,052)	-	-
Net Assets Released from Restriction	1,788,454	(1,788,454)	-	-	-
<u>Total Support</u>	\$ 2,213,460	\$ 600,913	\$ 460,287	\$ 3,274,661	\$ 3,427,114
<u>Revenue:</u>					
Interest and Dividend Income	\$ -	\$ 443,053	\$ -	\$ 443,053	\$ 455,384
Net Unrealized and Realized Gain (Loss) on Investments	-	1,940,862	-	1,940,862	(588,127)
<u>Total Revenue</u>	\$ -	\$ 2,383,915	\$ -	\$ 2,383,915	\$ (132,743)
<u>TOTAL SUPPORT AND REVENUE</u>	\$ 2,213,460	\$ 2,984,828	\$ 460,287	\$ 5,658,575	\$ 3,294,371
<u>EXPENSES:</u>					
Program Services	\$ 1,730,701	\$ -	\$ -	\$ 1,730,701	\$ 1,981,086
Support Services	429,065	-	-	429,065	556,137
<u>TOTAL EXPENSES</u>	\$ 2,159,766	\$ -	\$ -	\$ 2,159,766	\$ 2,537,223
 Net Change in Assets	 \$ 53,694	 \$ 2,984,828	 \$ 460,287	 \$ 3,498,809	 \$ 757,148
Adjustment to correct the error of conditional pledges recorded					
<u>Net Assets at Beginning of Year</u>	<u>71,872</u>	<u>2,923,927</u>	<u>14,677,422</u>	<u>17,673,221</u>	<u>16,916,073</u>
<u>NET ASSETS AT END OF YEAR</u>	<u>\$ 125,566</u>	<u>\$ 5,908,755</u>	<u>\$ 15,137,709</u>	<u>\$ 21,172,030</u>	<u>\$ 17,673,221</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF FUNCTIONAL EXPENSES

Schedule of Program Services

University of North Alabama Foundation

For the Years Ended September 30, 2012 and 2011

	2012 Total Program Services	2011 Total Program Services
Scholarships Awarded	\$ 610,460	\$ 638,563
Eminent Scholars Support	166,791	227,666
Academic Program Support	176,830	394,674
Alumni Program Support	75,136	99,651
Annuities	49,586	44,989
Athletic Department Support	455,048	390,220
Student and Faculty Support	6,533	36,894
Other Program Support	<u>190,318</u>	<u>148,429</u>
<u>TOTAL PROGRAM SERVICES</u>	<u>\$ 1,730,701</u>	<u>\$ 1,981,086</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF FUNCTIONAL EXPENSES

Schedule of Support Services

University of North Alabama Foundation

For the Year Ended September 30, 2012 with Summarized Financial Information for the Year Ended September 30, 2011

	Management & General	Fund Raising	2012 Total Support Services	2011 Total Support Services
Contract Services - Other	\$ 11,157	\$ 118,028	\$ 129,185	\$ 121,986
Supplies	63,598	10,868	74,466	32,986
Cost of Sales	-	768	768	459
Postage	2,570	9,027	11,598	15,481
Legal and Accounting	14,130	175	14,305	17,160
Telephone	115	-	115	285
Equipment Maintenance and Repairs	-	-	-	568
Printing and Copying	3,418	25,215	28,633	54,773
Membership Dues	1,720	2,378	4,098	7,653
Advertising	150	-	150	8,196
Donations and Sponsorships	6,300	5,500	11,800	7,675
NAA Events	-	26,069	26,069	53,035
Software and Maintenance	-	10,315	10,315	59,107
Insurance	5,814	6,454	12,268	6,793
Fees	-	10,389	10,389	12,997
Travel, Lodging, and Meals	1,138	17,486	18,624	26,675
Staff Development	-	2,620	2,620	2,499
Donor Appreciation	-	-	-	5,332
Gifts and Flowers	9,997	3,341	13,338	4,648
Awards	870	4,808	5,679	20,990
Banquets and Meals	3,477	7,475	10,952	24,213
In-Kind Expense	31,309	10,096	41,404	67,619
General Program Support	-	1,680	1,680	3,560
Bad Debt Expense	-	500	500	-
Miscellaneous Expenses	-	111	111	1,448
<u>TOTAL SUPPORT SERVICES</u>	<u>\$ 155,763</u>	<u>\$ 273,302</u>	<u>\$ 429,065</u>	<u>\$ 556,138</u>

The Accompanying Notes are an Integral Part of these Financial Statements

STATEMENTS OF CASH FLOWS

University of North Alabama Foundation

For the Years Ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in Net Assets	\$ 3,498,809	\$ 757,148
Adjustments to Reconcile Change in Net Assets to Net		
Cash provided by (used for) Operating Activities:		
Realized and Unrealized Gain on Investments	(1,940,862)	588,127
Change in Amortization of Discount on Pledges Receivable	21,143	(6,632)
Change in Accounts Receivable	53,792	(28,726)
Change in Pledges Receivable	(1,087,484)	(143,837)
Change in Prepaid Expense	5,250	(5,250)
Change in Inventories	(7,565)	1,881
Change in Interest Receivable	(10,092)	38
Change in Accounts Payable	172,976	124,634
Change in Unearned Revenue	11,340	-
Change in Obligations Under Annuity Contracts	77,082	(28,962)
Contributions Restricted for Long-Term Investment	(460,287)	(1,501,019)
Net Cash Provided by (Used for) Operating Activities	\$ 334,102	\$ (242,597)
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Net of Purchase and Sale of Investments	\$ (187,754)	\$ (996,605)
Net Cash Used for Investing Activities	\$ (187,754)	\$ (996,605)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Receipts of Contributions Restricted for Long-Term Investment	\$ 460,287	\$ 1,501,019
Net Cash Provided by Financing Activities	\$ 460,287	\$ 1,501,019
Increase in Cash and Cash Equivalents	\$ 606,635	\$ 261,817
Cash and Cash Equivalents at Beginning of Year	1,813,271	1,551,454
<u>CASH AND CASH EQUIVALENTS AT END OF YEAR</u>	<u>\$ 2,419,906</u>	<u>\$ 1,813,271</u>

The Accompanying Notes are an Integral Part of these Financial Statements

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION'S ACTIVITIES

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

BASIS OF ACCOUNTING

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

BASIS OF PRESENTATION

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

Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the Foundation pursuant to those stipulations or that expire by the passage of time.

Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of such assets permit the foundation to use all or part of the income earned on the asset based on the donor-imposed restrictions.

ESTIMATES

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

CASH AND CASH EQUIVALENTS

For purposes of the statement of cash flows, cash equivalents include time deposits, certificates of deposit, and all highly liquid debt instruments with original maturities of three months or less, except for investments purchased with endowment assets, which are classified as long-term investments. All cash is secured by the bank through a repurchase agreement or FDIC Insurance.

ACCOUNTS RECEIVABLE

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

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENTS

Investments are carried at fair value.

FIXED ASSETS

Furniture and Equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, generally 5 to 7 years. Donated artifacts and collectibles are recorded at cost if purchased and at fair value at the date of accession if donated. The Foundation does not recognize depreciation on artifacts and collectibles. In addition, the Foundation utilizes certain facilities and equipment owned by the University. Such facilities and equipment are not recorded on the books of the Foundation.

ENDOWMENT FUNDS

The Foundation's permanently restricted net assets consist of numerous endowment funds established for the purposes discussed in Note 7. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended September 30, 2011, from which the summarized information was derived.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVESTMENT RETURN OBJECTIVE, RISK PARAMETERS AND STRATEGIES

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

SPENDING POLICY

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

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

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

CONTRIBUTIONS

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional; that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate. Amortization of discounts is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivables is provided based upon management's judgment. During 2012, the University's Division 1 fundraising initiative provided approximately 52% of total revenue.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAXES

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

INVENTORIES

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

NOTE 2: PROMISES TO GIVE

Unconditional promises to give are recorded as receivables and revenue with 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. Unconditional promises to give at September 30, 2012, are as follows:

Promises to give expected to be collected in:	
Less than one year	\$ 446,774
One to five years	1,162,112
More than five years	<u>1,147</u>
	\$ 1,610,033
Less allowance for uncollectible promises to give	(21,147)
Less discount at 1.2% on promises to give	<u>(42,908)</u>
<u>NET UNCONDITIONAL PROMISES TO GIVE</u>	<u>\$ 1,545,978</u>

NOTE 3: CONDITIONAL PROMISES TO GIVE

During 2012, the Foundation received promises to give totaling \$106,000 that contained donor conditions (primarily athletic sponsorship requirements). Since these pledges represent conditional promises to give, they are not recorded as contribution revenue until donor conditions are met.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 4: FAIR VALUE MEASUREMENTS

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

Description	Fair Value	Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Money Market	489,724	489,724	-	-
Fixed Income				
Government Obligations	1,671,209	1,671,209	-	-
Corporate Obligations	330,785	330,785	-	-
Domestic Mutual Funds	3,007,792	3,007,792	-	-
International Mutual Funds	760,779	760,779	-	-
Other	19,283	19,283	-	-
Total Fixed Income	5,789,849	5,789,849	-	-
Equities				
International Equities	889,992	889,992	-	-
Domestic Mutual Funds	2,069,351	2,069,351	-	-
International Mutual Funds	1,538,480	1,538,480	-	-
Other	2,923,636	2,923,636	-	-
Total Equities	7,421,459	7,421,459	-	-
Complementary Strategies				
Hedge Investments	921,664	254,716	666,948	-
Other	588,539	588,539	-	-
Total Complementary Strategies	1,510,204	843,255	666,948	-
Real Assets				
Real Asset Funds	2,302,623	2,302,623	-	-
Other	16,036	16,036	-	-
Total Real Assets	2,318,659	2,318,659	-	-
<u>Total Investments</u>	<u>17,529,895</u>	<u>16,862,947</u>	<u>666,948</u>	<u>-</u>

The Foundation recognizes transfers into and out of levels at the end of the reporting period. There were transfers from Level 1 to Level 2 during the year ending September 30, 2012.

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

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 5: FIXED ASSETS

Fixed Assets consisted of the following at September 30:

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

Depreciation expense for year ending September 30, 2012 was \$0.

NOTE 6: RESTRICTIONS ON NET ASSETS:

Net assets released from restrictions during year ending September 30, 2012 were comprised of the following:

Program Services	\$ 834,373
Instruction	343,621
Scholarships	<u>610,460</u>
<u>TOTAL NET ASSETS RELEASED FROM</u> <u>RESTRICTIONS</u>	<u>\$ 1,788,454</u>

Temporarily restricted net assets at September 30, 2012, are available for the following purposes:

Program Services	\$ 4,030,940
Instruction	1,185,840
Scholarships	<u>691,975</u>
<u>TOTAL TEMPORARILY RESTRICTED NET ASSETS</u>	<u>\$ 5,908,755</u>

Permanently restricted net assets of the following at September 30, 2012:

Program Services	\$ 207,394
Instruction	4,889,241
Scholarships	<u>10,041,074</u>
<u>TOTAL PERMANENTLY RESTRICTED NET ASSETS</u>	<u>\$15,137,709</u>

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 7: ANNUITY GIFTS AND OBLIGATIONS

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

Obligations under annuity contracts at September 30, 2012 are as follows:

Current Portion	\$ 69,992
Deferred Portion	<u>327,181</u>
<u>TOTAL ANNUITY OBLIGATIONS</u>	<u>\$ 397,173</u>

NOTE 8: FUNCTIONAL ALLOCATON OF EXPENSES

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

NOTE 9: RELATED PARTY TRANSACTIONS

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. At September 30, 2012, pledge receivables from University board members and directors were \$53,062. The Foundation has payables to the University, its board members, and directors of \$357,615. The Foundation uses office space owned by the University without paying rent for the facilities. The value of the donated facilities was \$20,720 for the year ending September 30, 2012.

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 \$150,000 at September 30, 2012. The Foundation owes \$56,191 to the Sportsman's Club at September 30, 2012.

NOTE 10: SUBSEQUENT EVENTS:

The Foundation has evaluated subsequent events through December 14, 2012, the date which the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

University of North Alabama Foundation

September 30, 2012

NOTE 11: UNCERTAIN TAX POSITIONS

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of the Organization and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being recognized upon ultimate settlement. There were no unrecognized tax benefits identified as liabilities for fiscal year 2012.

The Organization files forms 990 in the U.S. federal jurisdiction. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2008.