2.11.1 Financial Resources

2.1 The institution has a sound financial base and demonstrated financial stability to support the mission of the institution and the scope of its programs and services.

The member institution provides the following financial statements: (1) an institutional audit (or Standard Review Report issued in accordance with Statements on Standards for Accounting and Review Services issued by the AICPA for those institutions audited as part of a system-wide or statewide audit) and written institutional management letter for the most recent fiscal year prepared by an independent certified public accountant and/or an appropriate governmental auditing agency, employing the appropriate audit (or Standard Review Report) guide; (2) a statement of financial position of unrestricted net assets, exclusive of plant assets and plant-related debt, which represents the change in unrestricted net assets attributable to operations for the most recent year; and, (3) an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the governing board. Audit requirements for applicant institution may be found in the Commission policy ‘Accreditation Procedures for Applicant Institutions”.

Judgment of Compliance

In Compliance

Narrative

The University of Alabama (UA) has a sound financial base and over 180 years of demonstrated financial stability to support its mission to advance the intellectual and social conditions of the people of the State, the nation, and the world through the creation, translation, and dissemination of knowledge through quality programs of teaching, research, and service.

The University is governed by the Board of Trustees (Board) of The University of Alabama System (System), a body corporate under Alabama Law. The Board’s Bylaws [1] define the primary functions of the Board, some of which include approval of operating budgets, educational programs, facilities and capital financings for each campus, with tuition and fee schedules applicable at each campus.

Financial Stability

The University maintains financial stability with a strong financial position as proven by its financial statements and Operational Highlights presented for fiscal years 2009 through 2013. Strong financial ratios coupled with positive agency ratings provide additional evidence of a sound financial base. Please note, the University’s fiscal year is October 1 through September 30.

The University’s diverse revenue streams also support its financial stability and strong financial base. The multi-year Statement of Revenues, Expenses and Changes in Net Assets [2] and Operational Highlights[3] present UA’s active sources of revenue as operating revenues, which consist of tuition, auxiliary revenues, grants and contracts, and other revenues. UA derives passive sources of revenue (reported as non-operating revenue in the SRECNA) from state appropriations, private support, and investment income, which are added to the operating revenue to arrive at adjusted operating revenues in the Operational Highlights.
Tuition is UA's largest source of operating revenue. As a result of unprecedented enrollment growth, \[4\] net tuition revenue averaged a 14% annual increase since 2009. \[2\] Enrollment growth \[4\] positively impacted housing auxiliary revenues as well. Auxiliary revenues over the five-year period 2009–2013 increased 42% with an annual average increase of 10%. \[2\] In addition to housing, Intercollegiate Athletics contributes to auxiliary revenue with a proven history of successful competition in a variety of sports. UA's other operating revenues are impacted by the activity of the Crimson Tide Foundation, a support foundation for Intercollegiate Athletics, which has experienced annual average increases of 10%. \[2\] The receipt and decline in American Recovery and Reinvestment Act of 2009 (ARRA) funding impacted fluctuations in grants and contracts funded by federal and state sources. Local and private funding sources routinely fluctuate year to year. Overall, operating revenues increased over 50% from 2009–2013, with an average annual increase of 11%. \[2\]

Non-operating revenues important to operations include state appropriations, gifts, grants, and investment income. The state appropriations trend \[5\] decreased over time with an increase in 2012, only to decline again in 2013, followed by another slight increase for the 2014 budget. Investment income, exclusive of market changes, is a constant component of revenues with an average annual increase of 5%. \[2\] The University's most recent capital campaign concluded June 30, 2009. \[6\] This was the largest and most successful campaign in UA's history proving strong philanthropic support from the University's alumni and friends, reporting a grand total in excess of $ 612 million. \[7\] Gift revenue remains strong at UA with $45.4 million reported in fiscal year 2013, and average annual gifts of $48.5 million in the 2009–2013 period. \[2\] Collectively, the University's operating and non-operating revenues illustrate the diversity of the University's adjusted operating revenues and its sustainability, based on average annual increases of 7% over the last five years. \[3\]

In total, adjusted operating revenues were $916.9 million in 2013, a $221.2 million increase over $695.7 million in 2009, while expenses were $785.8 million, up $170.3 million over $615.5 million in 2009. This resulted in a surplus of $131.1 million in 2013 with an increase of $50.9 million for the period 2009 to 2013. \[13\] The attached chart of adjusted operating revenues and expenses \[8\] illustrate that UA's operating revenues are consistently above the adjusted operating expenses. Within Operational Highlights, \[3\] Expenditures by Function demonstrate that over the last five years, expenditures in each functional area remained relatively consistent in comparison to total expenditures. UA's largest functional expense category of Instructional Costs remained relatively constant for the last five years at a little over 33% of total operating expenses \[13\]. Auxiliary expenses are the second largest functional expense and are supported by Auxiliary revenues. UA realized an adjusted operating surplus for each of the five years from 2009–2013. \[3\] In addition, the total net assets trend in the Statement of Net Assets also indicates surpluses each of the five years for a total increase of $612.4 million, or a 45% total increase, with an average annual increase of 10%. \[9\] ending with net assets in excess of $1.9 million in 2013.

In addition to robust increases in net assets, further balance sheet health is measured by management of the Endowment. The Board’s Bylaws \[10\] establish an Investment Committee in Article IV, Section 5, while responsibility for managing the System’s investments is outlined in Board Rule 404, Investment Policy and Guidelines. \[11\] The Board established a Spending Rate for the Pooled Endowment fund of 5% of the trailing 36-month moving average of unit market values. The Investment Committee reviews the spending rate annually, and the rate has not changed over the last five years. \[12\] The value of the Endowment investments totaled $617.6 million in 2013, experiencing a $102.4 million increase since 2009. \[9\] Outside any market changes, UA has averaged annual additions to the permanent endowment of $16.9 million each of the last five years. \[2\] In 2013, Endowment Investments decreased $56 million from $673.6 million in 2012 to $617.6 million in 2013 as a result of an internal transaction between the endowment and operations. During Fiscal Year 2010, UA had the opportunity to purchase 168 acres of property contiguous to its campus. The purchase of this real estate was funded by income from endowed mineral rights. The land endowment resolution dictates that said income may be used as deemed in the best interests of UA. The long term use of the property was initially undetermined until the campus master plan was finalized. As master planning proceeded in 2011 and 2012, the University determined that the property would be used for operations. The value of the land was $87.6 million at the time of the transfer resulting in a decrease to endowment investments and an increase to capital assets.
Further evidence of UA’s financial stability and soundness of its financial base is a strong ratio analysis as seen in the Key Ratios and Financial Measures [13] provided to the System Office annually for distribution to the Board. [14] This report contains a five-year trend that demonstrates UA’s solid financial stability, even with slight decrease to endowment investments for 2013 resulting from the real estate transfer to operations. The Current Ratio, Primary Reserve Ratio, Return on Net Assets, Viability Ratio, Annual Operating Margin and Annual Debt Service coverage Ratio all display results that attest to UA’s stable financial position. Bond credit rating agencies corroborate that UA’s financial outlook is stable with Moody’s Investors Service assigning an Aa2 rating [15] for the most recent bond issue in October 2012 for Series 2012-A and 2012-B totaling $272 million, and Standard & Poor’s Ratings Services assigning a AA- Long Term Rating. [16] In addition, UA’s financial advisor, Raymond James, used the Moody’s Municipal Financial Ratio Analysis (MFRA) database to present a comparison of the University to the median and mean of other Higher Education Public Universities with an Aa2 rating. An excerpt of the report showing this comparison is provided. [17]

Statement of Financial Position of Unrestricted Net Assets

A separate Statement of Unrestricted Net Assets has been prepared for fiscal years 2009 through 2013. [18] Unrestricted net assets grew from $248.5 million in 2009 to $478.7 million in 2013, or by a 77% growth, thereby indicating strong performance despite the decrease from 2012 to 2013 resulting from the transfer of real estate from endowment investments to operations as noted above. When the property was transferred, unrestricted net assets decreased $87.6 million for the value of the property that is now funded from unrestricted reserves as opposed to endowment coal royalties as had been originally approved at purchase. Excluding this transaction from the $52.7 million 2013 decrease, unrestricted net assets increased $34.9 million from 2013 operations. Unrestricted net assets of $884.3 million are available to meet day to day operations.

Institutional Audit and Management Letter

Board Rule 407, Auditing Operations, [19] establishes the Audit Committee’s authority, composition, operations and responsibilities; and Board Rule 402, Financial Accounting and Reporting, [20] governs the principles, guidelines and standards to be used for Financial Accounting and Reporting. The System’s Financial Report is audited by an external accounting firm on an annual basis as engaged by the Audit Committee. The most recent audit of the 2013 Financial Report [21] was performed by PricewaterhouseCoopers who issued the University an unqualified opinion [22] that cites “the financial statements…present fairly, in all material respects, the respective financial position of the University…and the respective changes in financial position…in accordance with accounting principles generally accepted in the United States of America.” Audited Financial Reports for the previous four years are provided:


At the conclusion of the audit, the Annual Financial Report [27] is presented to the Board’s Audit Committee for approval. [28]

The management letter for the external audit of the financial encompasses all campuses that comprise the System. Management reports for five years are provided:

- Management Letter 2013 [29]
- Management Letter 2011 [31]
- Management Letter 2010 [32]
- Management Letter 2009. [33]
In 2012, all System campuses were included in a control deficiency for Create and Post Journal Entry Access, i.e. separation of duties for the creation versus approval or posting of journal entries. As a result, the UA enhanced its procedures and added mitigating controls to address the 2012 deficiency. In fiscal year 2011, a revision to the 2010 prior year cash flow resulted in a significant deficiency for the UA campus. However, the net impact of the revision to cash was zero as the change was related to a classification between categories reported in the Statement of Cash Flows. Management’s detailed response to the finding is included in the 2011 Management Letter.

In 2009, there were two findings at the System level. The first finding is the Evaluation of Impairments (System Investment Pools) and is fully addressed in management’s response within the management letter. The second finding is applicable to Enterprise Risk Management. According to the Vice Chancellor for Financial Affairs at System Office, the System continues to implement and coordinate a System-wide risk management program. A Director of Risk Management was hired and began duties in August 2012 in the System office. This position is responsible for the coordination of risk management functions over the System. Duties include identifying and assessing risks, and assisting campuses and departments to develop comprehensive plans, policies, and procedures to mitigate, monitor, and report such risks. The position reports to the Chancellor and serves on the Chancellor’s Senior Staff. In 2013, a System Risk Management Committee was established to assist with these functions. Committee membership consists of four members of the Board, the presidents of each campus within the System, the Chief Executive Officer of the University of Alabama at Birmingham Health System, and four administrators from the System Office (Chancellor, Executive Vice Chancellor, General Counsel, and Director of Risk Management.) The Committee held its initial meeting in September 2013.

In addition to the external financial statement audit, the Board established Board Rule 408, Internal Audit Policies and Standards, to govern the internal audit functions that are managed independently of the institution at the System level. Also, receipt of state appropriations by UA render it a state institution that is subject to compliance audits performed by the State of Alabama’s Department of Examiners of Public Accounts. The most recent compliance audit performed by the Examiners of Public Accounts encompassed fiscal years 2009–2012.

**Budget Planning and Approval Process**

The University prepares an annual budget that is preceded by sound planning, is subject to sound fiscal procedures, and is approved by the Board. Pursuant to Board Rule 410 Annual Operating Budgets, the Chancellor shall establish and supervise “an orderly budgetary process that is integrated with such other activities as academic planning, capital planning, and the legislative appropriation process.” UA budget planning and development functions are a continuous and ongoing processes that start with the submission of an annual request for state appropriations to the Executive Budget Office (EBO) of the State of Alabama Department of Finance, as represented in the Guidelines for the Annual Budgeting process with graphical presentations of the Annual Budgeting Process and the Annual Budgeting Calendar included. As described in Board Rule 409, Legislative Appropriations Requests, institutional budget requests are prepared and submitted to the Chancellor for review and submission to the Board. Upon approval by the Board, the institution will submit its legislative request, as seen in the FY2014 Legislative Request prepared in October 2012, to the State each November for the operating year beginning the following October 1st.

The University Budget Office is responsible for the development of a budget model beginning in early March to be used by executive administration in planning and evaluating resource allocation for the upcoming fiscal year. Developing a budget model for the next fiscal year entails identifying potential cost increases, forecasting estimated revenue changes, and prioritizing new and ongoing commitments in order to provide quality programs of teaching, research and service. Various scenarios based on predicted changes in state appropriation levels, tuition and fee revenues, enrollment, and other revenue sources are considered within the context of funding and program needs, and changes to UA’s anticipated cost structure. After consideration of the needs of UA community, and an assessment of the probable level of state appropriated funding in relation to the previously submitted Legislative Request, a decision is made regarding the proposal of a tuition and fee increase, if necessary, to the Board. Working closely with the System Office, an overview of the preliminary budget plan, along with a request for a tuition and fee increase, if warranted, is presented to the Chancellor for his recommendations and then submitted to the Finance Committee of the Board for its June meeting. Following Finance Committee approval, tuition resolutions go forward for a full Board vote. After approval from the Board, allocations along with general salary guidelines are provided to UA’s President and Vice President of each division.
Internal budgeting processes begin within each department on campus. Academic departments submit budget requests to their deans, who report directly to the Provost. The dean of each college will review, compile and prioritize the requests in preparation for submission to the Provost. After discussions with each dean and evaluation of the recommendations, the Provost approves the budget plan and electronically submits to the Budget Office as part of the overall Academic Affairs budget recommendation. All non-academic departments submit budget requests to their divisional Vice President, which are then submitted to the Budget Office. The consolidated budget recommendations are evaluated by the President, Provost, and Vice President for Financial Affairs. Budget requests and funding are determined by availability of funds and the prioritization of requests in context with the institutional strategic goals and objectives. The UA Budget Office is responsible for and oversees budget preparation and implementation. Budget development and revisions are processed within the framework of the institution’s enterprise planning software, IBM Cognos TM1. Approved budgets are ultimately submitted to the Budget Office for analyses, review, and reconciliation. Reconciliation and review ensures that approved revenue and expense allocations have been accurately budgeted according to the resource allocation decisions of executive leadership.  

When the budget has been balanced, analyses and reports as required by Board Rule 410, Annual Operating Budgets, are prepared and disseminated as necessary. The proposed budget is presented to the Board, as seen in the FY2014 Budget Presentation, the FY2014 Operating Budget Highlights, and the FY2014 Budget Proposal with Prior Year Comparisons, by UA System Executive Vice Chancellor for Finance and Operations and UA’s Vice President for Financial Affairs at its September meeting. Upon review and subsequent discussion, the proposed budget, if accepted, is approved as evidenced in the Certified Resolution from the Board’s September 2013 meeting and demonstrated in the FY2014 Approved Budget. Approved budgets are posted to the next fiscal year operating ledger within Banner, an enterprise resource planning (ERP) program the institution utilizes to manage and track operations. The ERP system is used throughout the fiscal year to monitor, analyze, and report budget activity as well as document appropriate approvals for any requests for budget changes.  

The Budget Office works closely with the Office of Financial Accounting and Reporting to ensure that necessary controls are in place and to ensure transactions are recorded accurately and timely. Monthly reports, in addition to ad-hoc reports available within the ERP system, are housed in a database accessible by fiscal managers for each department on campus. These reports provide data on comparison of budget to actual expenditures in the Budget Status and Budget Summary, fund balances, and transaction detail. In addition, reports detailing budget availability, year-to-date expenditures, and encumbrances for each position provide comprehensive information on salary and wage budgets, expenditures, and estimated expenditures through year-end. These reports are utilized by Budget Office staff and business officers in each respective division. Business officers in each division or college, most commonly in job roles classified as Director of Financial Affairs, Accounting Administrator, or Manager of Fiscal Affairs, work to identify any deficits that require further evaluation. Budget to actual deficits are resolved by identifying available resources that can be used to offset and eliminate the budget deficit. To ensure ongoing communication to the Board related to budget activity, UA prepares a December, March and June quarterly Budget to Actual report for submission to the Board for review.  

Budget contingency plans have been developed to respond to possible reductions to state appropriations and/or unexpected changes in enrollment patterns. These plans are created by utilizing multiple strategies in order to provide diversified options to offset or negate any adverse financial conditions without compromising the ability of the institution to meet ongoing operations. Strategies include both proactive and reactive measures that allow for institutional flexibility. Proactive measures include a conservative budgeting process preceded by sound planning and fiscal procedures that include economic forecasts from the Center for Business and Economic Research that provide comprehensive economic forecasting and analysis for the State of Alabama. Supplementary measures include maintaining financial stability through a diverse stream of revenues that make up 82% of the annual budget, with state appropriations comprising only 18% as presented in the budget presentation. Further, recently implemented state legislation, The Rolling Reserve Act (Act2011–3), seeks to stabilize appropriation levels by using a 15-year rolling average to adjust revenue distribution and creates a Budget Stabilization Fund to receive excess revenues that would be used to offset reductions in educational appropriations funding resulting from emergency declarations by the State of Alabama.
Reactive measures that serve as a budget contingency plan include the use of institutional reserve funds that have been set aside in the event of an unexpected change in financial conditions. These budget reserves are available for ongoing operations, plant funds, and debt service needs and have been accumulated from the implementation of conservative operating budgets over multiple fiscal periods. Through this diligent approach to budget development and planning, the University positions itself to respond to various potential revenue cuts while ensuring minimal impact to its core mission.

In summary, UA has a consistent trend of financial soundness and stability to support its mission based on the following factors:

- The UA's adjusted operating revenues have increased from $695.7 million in 2009 to $916.9 million in 2013 with adjusted operating expenses increasing from $615.5 million in 2009 to $785.8 million in 2013.
- UA's net assets reached $2 billion in 2013.
- Unrestricted net assets have grown from $248.5 million in 2009 to $478.7 million in 2013.
- UA has established a strong ratio analysis and agency ratings.
- UA demonstrates sound budget planning, approval, and control by following Board policies which ensure a carefully constructed process that integrates academic planning, conservative revenue estimation, and resource allocation that meets the needs of the university community.

**Supporting Documents**

1. UA Board of Trustees’ Bylaws Article I, Section 6 (PDF)
   Full Document (PDF)
2. UA Statement of Revenues, Expenses and Changes in Net Assets (PDF)
3. UA Operational Highlights (PDF)
4. UA Enrollment Growth (PDF)
5. State Appropriations Trend (PDF)
6. UA Capital Campaign Announcement (PDF)
7. UA Capital Campaign (PDF)
8. UA Chart of Adjusted Operating Revenues and Expenses (PDF)
9. UA Statement of Net Assets (PDF)
10. UA BOT Investment Committee (PDF)
    Full Document (PDF)
11. UA BOT Rule 404, Investment Policy and Guidelines (PDF)
    Full Document (PDF)
12. UA Spending Rate Report (PDF)
13. UA Key Ratios and Financial Measures (PDF)
14. UA Report on Ratios and Financial Measures (PDF)
15. UA Moody’s Ratings Agency Report (PDF)
16. UA Standard & Poors Ratings Agency Report (PDF)
17. Moody’s Ratio Comparisons (PDF)
18. UA Statement of Unrestricted Net Assets (PDF)
19. UA Board of Trustees Rule 407 Auditing Operations (PDF)
20. UA Board of Trustees Rule 402 Financial Accounting and Reporting (PDF)
22. UA Unqualified Opinion 2013 (PDF)
27. UA Financial Report 2012–13 (PDF)
28. UA Board of Trustees’ Audit Committee Meeting Minutes, February 2012 (PDF)
29. UA Management Letter 2013 (PDF)
30. UA Management Letter 2012 (PDF)
31. UA Management Letter 2011 (PDF)
32. UA Management Letter 2010 (PDF)
33. UA Management Letter 2009 (PDF)
34. UA 2012 Management Letter Communication (PDF)
35. 33 UA Board of Trustees Rule 408 Internal Audit Policies and Standards (PDF)
   Full Document (PDF)
36. 2012 State Examiner’s Report on UA (PDF)
37. UA Board of Trustees Board Rule 410 Annual Operating Budget (PDF)
   Full Document (PDF)
38. UA Board of Trustees Board Rule 409 Legislative Appropriations Requests (PDF)
   Full Document (PDF)
39. UA Annual Budget Process Guidelines (PDF)
40. UA Finance Committee Meeting Minutes, November 2012 (PDF)
41. Legislative Request Fiscal Year 2014 (PDF)
42. UA Preliminary Budget Overview (PDF)
43. UA Tuition and Fee Increase Request (PDF)
44. UA Finance Committee Meeting Minutes, Approval of Tuition Resolution, June 2013 (PDF)
45. UA Budget Allocations (PDF)
46. UA General Salary Guidelines (PDF)
47. UA Reconciliation Cognos to Allocation (PDF)
48. UA Board Rule 410, Annual Operating Budget (PDF)
    Full Document (PDF)

49. UA Budget Presentation 2014 Fiscal Year (PDF)

50. UA Operating Budget Highlights, Fiscal Year 2014 (PDF)

51. UA Fiscal Year 2014 Budget Proposal (PDF)

52. UA Finance Committee Meeting Minutes, Operating Budget Approval, September 2013 (PDF)

53. UA Approved Budget, Fiscal Year 2014 (PDF)

54. UA Budget Activity, ERP (PDF)

55. UA Budget Request and Approval, ERP (PDF)

56. UA Budget Status (PDF)

57. UA Budget Summary (PDF)

58. UA Fund Balances (PDF)

59. UA Transaction detail (PDF)

60. UA Quarterly Budget Actual Report (PDF)

61. Rolling Reserve Act (PDF)