

**REPORT HIGHLIGHTS**  
FINANCIAL STATEMENT AUDIT

**Subject**

Northern Arizona University issues financial statements annually. The University is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the University has met its responsibilities.

**Our Conclusion**

The information in the University's financial statements is fairly stated in all material respects, and the financial statements can be relied on. However, auditors identified internal control weaknesses over its computer systems as summarized on this page. This information will be incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.



2008

Year Ended June 30, 2008

## The University Should Improve Controls Over its Computer Systems

The University processes and stores sensitive student, financial, and personnel data on its computer systems. Therefore, the University should ensure that its Advantage accounting system functions as designed by properly authorizing, testing, reviewing, and approving modifications to the application software before implementation. Further, it is essential that physical access to the University's central computing Data Center be

properly authorized. However, not all modifications to Advantage were made through the ITS Service Order System, which tracks application software changes, and there was no log or generated report to document all application software changes. Consequently, changes to Advantage were not adequately controlled. Additionally, the University was unable to support the listing of employees given access to its central computing Data Center.

## The University's Condensed Financial Information

The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The University's discretely presented component units are not included in the condensed financial information that follows.

and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary below presents a condensed Statement of Net Assets as of June 30, 2008.

### Statement of Net Assets

The Statement of Net Assets reports all of the University's assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, which is the difference between assets and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors

<b>Assets</b>	
Current	\$127
Noncurrent, other than capital	47
Capital assets, net	<u>430</u>
Total assets	<u>604</u>
<b>Liabilities</b>	
Current	47
Noncurrent	<u>285</u>
Total liabilities	<u>332</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	153
Restricted	39
Unrestricted	<u>80</u>
Total net assets	<u>\$272</u>

## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Operating revenues and expenses are those that generally result from exchange transactions generated from providing instructional, research, and public and auxiliary services. All other revenues and expenses, such as state appropriations and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets showed a \$30.0 million increase. The summary to the right presents the University's revenues and expenses for the year ended June 30, 2008.

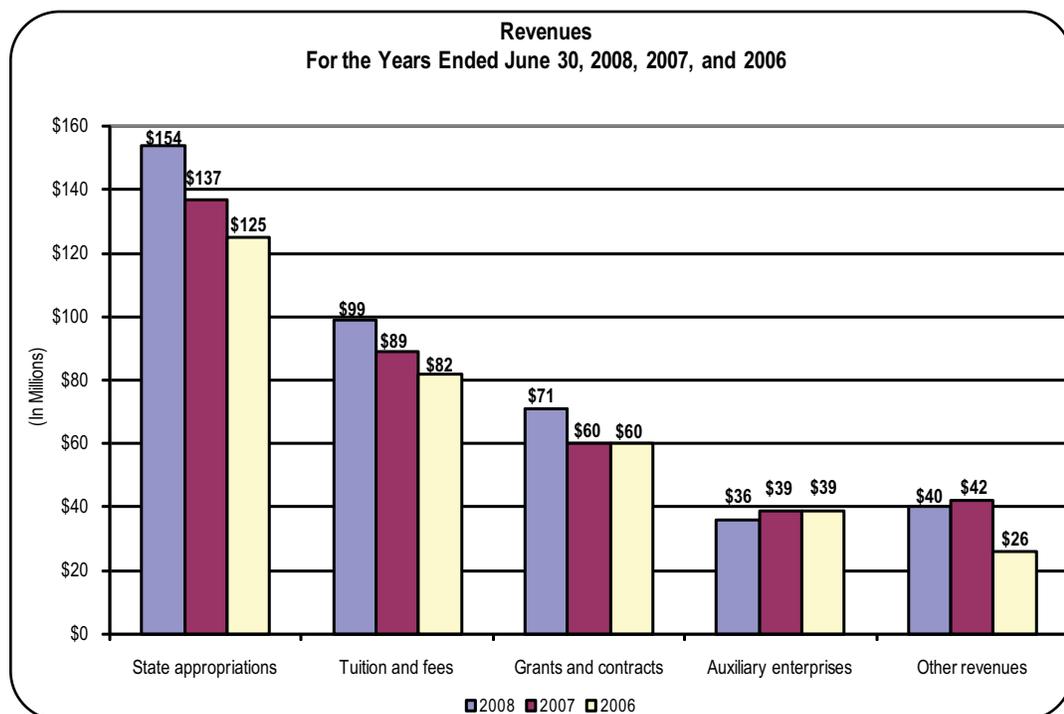
### Revenues and Expenses For the Year Ended June 30, 2008 (In Millions)

<b>Operating Revenues</b>	
Tuition and fees	\$ 99
Grants and contracts	18
Auxiliary enterprises	36
Other	9
Total operating revenues	<u>162</u>
<b>Nonoperating Revenues</b>	
State appropriations	154
Grants and contracts	53
Other	31
Total nonoperating revenues	<u>238</u>
Total revenues	<u>\$400</u>
<b>Operating Expenses</b>	
Educational and general	\$308
Auxiliary enterprises	29
Depreciation	19
Total operating expenses	<u>356</u>
<b>Nonoperating Expenses</b>	
Interest on indebtedness	12
Other	2
Total nonoperating expenses	<u>14</u>
Total expenses	<u>\$370</u>

## Revenues

Between fiscal years 2006 and 2008, the University's total revenues have increased by \$68 million, or 20 percent. As shown in the chart below, the change primarily resulted from increases in state appropriations, tuition and fees, and other revenues. State appropriation revenues increased \$29 million,

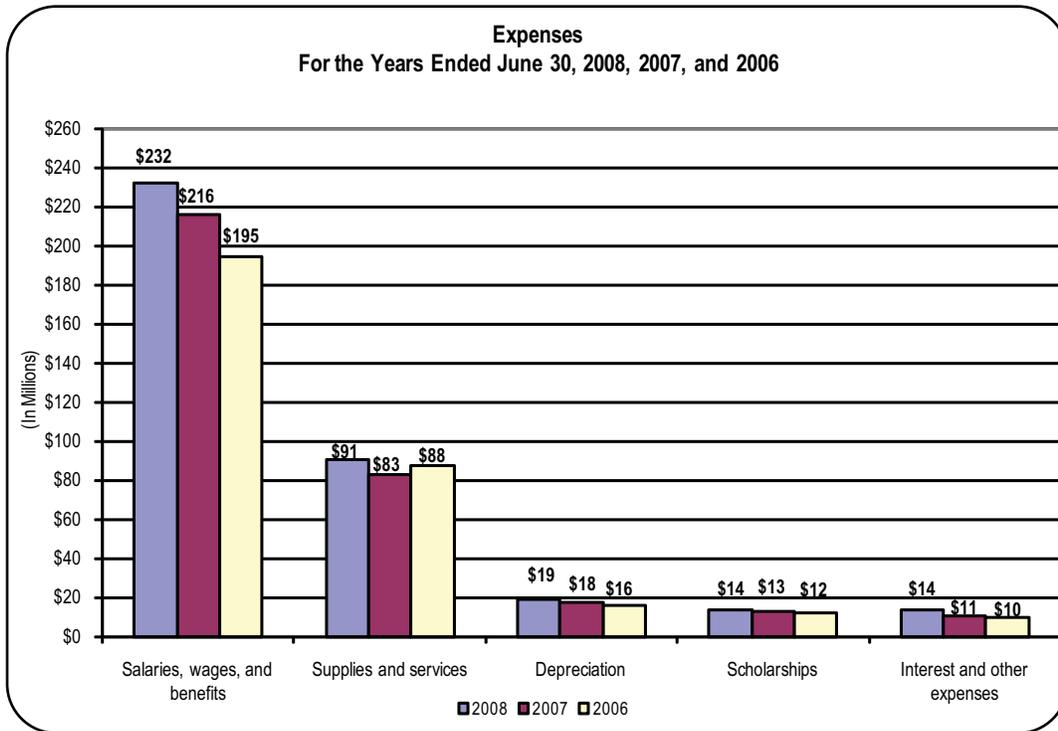
tuition and fees increased \$17 million, and other revenues increased \$14 million during the period. These changes primarily resulted from appropriation increases to offset the cost of student enrollment growth, increases in student enrollment and tuition rates, and increases in other nonoperating revenues including the University's share of state sales tax, capital appropriations, and capital grants and gifts.



## Expenses

Between fiscal years 2006 and 2008, the University's total expenses have increased by \$49 million, or 15 percent.

As shown in the chart below, the change primarily resulted from an increase in salaries, wages, and benefits that increased \$37 million from rising wages and employee benefit costs.



## Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2008.

**Cash Flows**  
For the Year Ended June 30, 2008  
(In Millions)

Cash flows from:	
Operating activities	\$(177)
Noncapital financing activities	225
Capital and related financing activities	(42)
Investing activities	(2)
Net increase in cash and cash equivalents	<u>\$ 4</u>

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Contact person for  
this report:  
Jay Zsorey



**Northern Arizona  
University**

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Year Ended June 30, 2008