



NORTHERN ARIZONA UNIVERSITY

2010-2011

FINANCIAL REPORT



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This financial report is compiled and issued by the Associate Vice President for Financial Services/Comptroller's Office Northern Arizona University P.O. Box 4069 Flagstaff, AZ 86011-4069

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UNIVERSITY ADMINISTRATION As of June 30, 2011

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Executive Vice President

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Senior Vice President for
Enrollment Management and
Student Affairs

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INDEPENDENT AUDITORS' REPORT



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Northern Arizona University as of and for the year ended June 30, 2011, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. 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 and the reports of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, the University's financial statements are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only those portions of the business-type activities, major fund, and aggregate discretely presented component units of the State of Arizona that are attributable to the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2011, and the changes in financial position and, where applicable, cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

INDEPENDENT AUDITORS' REPORT

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of Northern Arizona University as of June 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

The information included in the Management's Discussion and Analysis section listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

October 14, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Northern Arizona University's financial statements provides an overview of the University's financial activities for the year ended June 30, 2011. Management has prepared the financial statements and the accompanying note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University's management.

USING THIS FINANCIAL REPORT

This annual financial report includes the report of independent auditors, management's discussion and analysis, the financial statements in the format referred to below, and notes to the financial statements, which include the summary of significant accounting policies.

The financial statements presented by the University include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

- The Statement of Net Assets presents the financial position of the University at the end of the fiscal year. This statement is classified between current assets and liabilities and noncurrent assets and liabilities. In addition, capital assets are depreciated over the useful life of the asset and the annual depreciation amount is shown as a current year expense.
- The Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses, with state appropriations reported as nonoperating revenue. Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances.
- The Statement of Cash Flows provides information about the University's sources and uses of cash during the year.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University reports as a component unit those organizations that raise and hold economic resources for the direct benefit of the University or its constituents.

Based on GASB 39, the University identified two component units, the Northern Arizona University Foundation (Foundation), and the Northern Arizona Capital Facilities Finance Corporation (NACFFC).

Information on the component units can be found in this report in the component units' Statement of Financial Position, and Statement of Activities, as well as Note 8.

The Management's Discussion and Analysis focuses only on the University and does not address the component units.

FINANCIAL HIGHLIGHTS

- Total net assets increased \$49.1 million, 13.3 percent from July 1, 2010 to June 30, 2011 based on total sources of funds of \$455.6 million and \$406.5 million of uses.
- Total sources of revenues increased by \$29.4 million or 6.9 percent while total uses of funds increased by \$37.2 million or 10.1 percent.
- Student tuition and fees increased 16.5 percent from the previous year or about \$20.8 million.
- The University was granted \$300 thousand in Federal fiscal stabilization funds for fiscal year 2011, compared to \$10.9 million for the prior year.
- Investment income decreased \$1.2 million from the previous fiscal year, a 28.6 percent reduction.
- State and capital appropriations remained essentially the same as the prior year.
- The University share of state sales tax revenue increased \$300 thousand from the previous year, a 2.5 percent increase.
- Auxiliary enterprise revenues, bolstered by increased student housing revenues and construction administrative fees, increased by \$4.4 million, or 10.4 percent.

MANAGEMENT'S DISCUSSION AND ANALYSIS

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities, and net assets at June 30, 2011 and 2010 (in thousands), is as follows:

	2011	2010
Current assets	\$ 227,942	\$ 241,885
Noncurrent assets:		
Cash, cash equivalents, investments, and student loans receivable	80,510	151,931
Endowment investments	18,296	14,491
Capital assets – net of accumulated depreciation	618,674	507,713
Other noncurrent assets	365	382
Total noncurrent assets	<u>717,845</u>	<u>674,517</u>
Total assets	<u>945,787</u>	<u>916,402</u>
Long-term liabilities	<u>466,547</u>	<u>494,816</u>
Other liabilities	<u>61,343</u>	<u>52,756</u>
Total liabilities	<u>527,890</u>	<u>547,572</u>
Net assets	<u>\$ 417,897</u>	<u>\$ 368,830</u>

A review of NAU's Statement of Net Assets at June 30, 2011 and 2010 shows that the University's financial position continues to improve with an increase in net assets of \$49.1 million.

Current assets consist primarily of cash and investments, government grants and contracts receivable, and accounts receivable. Current assets are generally considered to be convertible to cash within one year. Current assets decreased overall by \$13.9 million over the prior fiscal year. The change was the result of a decrease in cash and investments of \$23.9 million, offset by an \$8.7 million increase in receivables and an increase of \$1.3 million in other assets.

Noncurrent assets increased \$43.3 million over the prior year due to an increase of \$111.0 million in capital assets offset by a \$67.6 million decrease in cash and investments.

Capital assets, net of accumulated depreciation, increased \$111.0 million over the prior fiscal year as the University continued with major capital improvement projects, including the ongoing construction of the Health and Learning Center and other capital facilities and infrastructure projects. The changes in capital assets are discussed in more detail in the Capital Assets and Debt Administration section.

The net decrease of \$67.6 million in noncurrent cash and investments was due to a \$94.5 million decrease in cash and cash equivalents held by trustee, due to the drawing down of cash for construction projects, offset by increases in noncurrent investments of \$23.1 million and endowment investments of \$3.8 million.

Long-term liabilities decreased by \$27.2 million over the prior fiscal year. The decrease is mainly attributable to the reduction of long-term debt, which is discussed further in the Capital Assets and Debt Administration section.

Current liabilities, which include accounts payable, accrued expenses, and deferred revenue, increased by \$7.5 million over the prior fiscal year. The increase is mainly attributable to an increase in accounts payable of \$7.3 million (primarily construction payables).

MANAGEMENT'S DISCUSSION AND ANALYSIS

NET ASSETS

A summarized comparison of the University's net assets at June 30, 2011 and 2010 (in thousands), is as follows:

	2011	2010
Invested in capital assets, net of related debt	\$ 200,274	\$ 157,565
Restricted:		
Nonexpendable	19,047	18,253
Expendable	16,366	19,373
Unrestricted	182,210	173,639
Total net assets	<u>\$ 417,897</u>	<u>\$ 368,830</u>

Invested in capital assets, net of related debt, increased \$42.7 million, resulting from a \$111.0 million increase in capital assets (net of depreciation) offset by \$68.3 million of related debt. Net assets at June 30, 2011 increased in total by \$49.1 million or 13 percent from 2010. This is a result of total combined sources of \$455.6 million and total uses of \$406.5 million. The University continues to increase its revenue sources and manage operating expenses, resulting in positive net asset growth.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the University, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to U.S. generally accepted accounting principles. See the table of Combined Sources and Uses of Funds on pages 12-13 for an overview of the composition of revenues and expenses (sources and uses). A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2011 and 2010 (in thousands), is as follows:

	2011	2010
Operating revenues:		
Tuition and fees, net of scholarship allowances	\$ 147,224	\$ 126,414
Grants and contracts	27,622	19,682
Auxiliary enterprises	47,172	42,745
Other	10,603	10,125
Total operating revenues	<u>232,621</u>	<u>198,966</u>
Nonoperating revenues:		
State appropriations	128,528	128,449
Share of state sales tax	11,189	10,913
Grants and contracts	64,327	64,388
Federal fiscal stabilization funds	292	10,935
Investment income	2,983	4,178
Other nonoperating revenues	6,341	1,732
Total nonoperating revenues	<u>213,660</u>	<u>220,595</u>
Total revenues	<u>446,281</u>	<u>419,561</u>
Operating expenses:		
Educational and general	333,465	302,416
Auxiliary enterprises	34,351	29,339
Depreciation	21,990	21,606
Total operating expenses	<u>389,806</u>	<u>353,361</u>
Nonoperating expenses:		
Interest expense on capital asset related debt	14,023	14,450
Other nonoperating expenses	2,699	1,561
Total nonoperating expenses	<u>16,722</u>	<u>16,011</u>
Total expenses	<u>406,528</u>	<u>369,372</u>
Increase before capital appropriations, capital grants and gifts and endowment additions	<u>39,753</u>	<u>50,189</u>
Capital appropriations, capital grants and gifts and endowment additions	<u>9,313</u>	<u>6,672</u>
Increase in net assets	<u>\$ 49,066</u>	<u>\$ 56,861</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUES ANALYSIS

The statement of revenues, expenses, and changes in net assets presents the University's operating, nonoperating, and capital related financial activity during the fiscal year. State appropriations and tuition and fees continue to be the major funding sources for operations related to educational purposes. Operating revenues are provided as a result of the University's ongoing operations such as tuition and fees, government grants and contracts, and auxiliary enterprises. Operating revenues (which does not include state appropriations) increased by \$33.7 million or 16.9 percent from fiscal year 2010. The majority of that increase, \$20.8 million, is attributable to tuition and fee revenue due to higher student enrollment coupled with an increase in board approved tuition rates. Auxiliary enterprise revenues increased by \$4.4 million, a 10.4 percent increase, including a \$1.6 million increase in residence life revenue due to additional occupancy, a new student housing facility, and a board approved rate increase.

Nonoperating revenues decreased overall by 3.1 percent, or \$6.9 million. State appropriations were virtually unchanged from the prior fiscal year. The share of state sales taxes-technology and research initiated funding (TRIF) revenues increased 2.5 percent, or \$300 thousand over the 2010 fiscal year. Federal fiscal stabilization funds awarded through the American Recovery and Reinvestment Act were \$300 thousand in fiscal year 2011, a decrease of \$10.6 million from the \$10.9 million received in fiscal year 2010. Investment income totaled \$3.0 million in 2011 compared to \$4.2 million in 2010. Other nonoperating revenue increased by \$4.6 million primarily due to a \$4.7 million increase in Build America Bond subsidies to \$6.3 million.

EXPENSES ANALYSIS

Overall, operating expenses increased \$36.4 million.

Educational and general expenses, which continued to account for a majority of the operating expenses, increased approximately ten percent or \$31.0 million. Significant changes within educational and general expenses were in instruction, a \$9.0 million increase; student services, a \$7.7 million increase; institutional support, a \$3.3 million increase; and scholarships and fellowships, a \$5.8 million increase. The scholarship and fellowship expense increase of \$5.8 million is directly linked to student enrollment growth and the impact of the economic downturn on need based financial support.

Reasons for the increases in the educational and general expense categories include:

- One-time investments in technology projects undertaken to improve the efficiencies of University business processes, and
- Salary and benefit costs increased by 7.1 percent, or \$16.4 million. The University made strategic investments in personnel largely in instructional areas to support the higher enrollment and to remain competitive in retaining and attracting instructors. Health insurance cost increases also contributed to the increase.

Depreciation expense increased by \$384 thousand, or 1.8 percent, as the University constructed new buildings and made improvements and renovations. Depreciation expense is expected to continue to increase as the University continues to construct new buildings and renovate older ones.

Nonoperating expenses increased by \$700 thousand, or 4.4 percent, including decreased interest expense of \$400 thousand, increased loss on disposal of capital assets of \$400 thousand and a \$700 thousand increase in loss on retirement of debt.

EXPENSES - BY FUNCTIONAL CLASSIFICATION

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2011 and 2010, is as follows:

	2011	2010
Operating:		
Instruction	\$ 132,116,474	\$ 123,076,526
Research	23,178,173	22,306,171
Public service	27,300,421	26,878,065
Academic support	30,320,981	27,193,695
Student services	32,994,864	25,312,244
Institutional support	40,909,099	37,626,758
Operation and maintenance of plant	17,426,421	16,591,368
Scholarships and fellowships	<u>29,218,295</u>	<u>23,430,855</u>
Total educational and general expenses	<u>333,464,728</u>	<u>302,415,682</u>
Auxiliary enterprises	34,351,311	29,339,433
Depreciation	<u>21,989,831</u>	<u>21,605,636</u>
Total operating expenses	<u>389,805,870</u>	<u>353,360,751</u>
Nonoperating:		
Interest and other	<u>16,721,883</u>	<u>16,011,310</u>
Total expenses	<u>\$ 406,527,753</u>	<u>\$ 369,372,061</u>

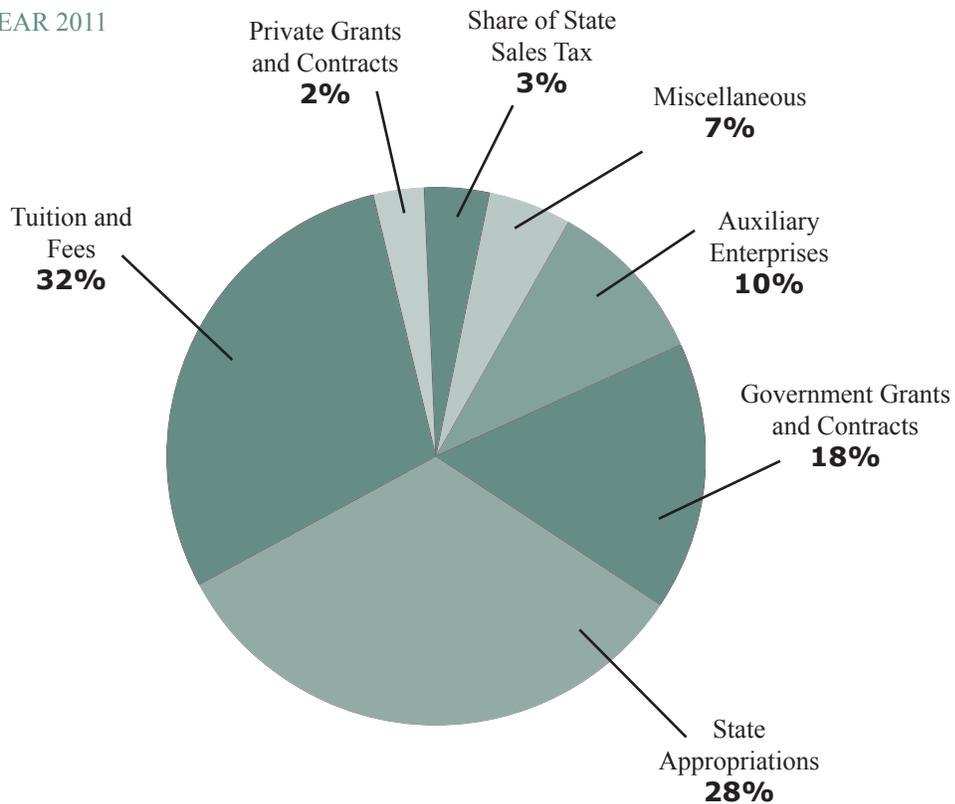
MANAGEMENT'S DISCUSSION AND ANALYSIS

EXPENSES - BY NATURAL CLASSIFICATION

In addition to their functional (program) classification, it is also informative to review operating expenses by their natural (object) classification. A comparative summary of the University's expenses by natural classification for the years ended June 30, 2011 and 2010, is as follows:

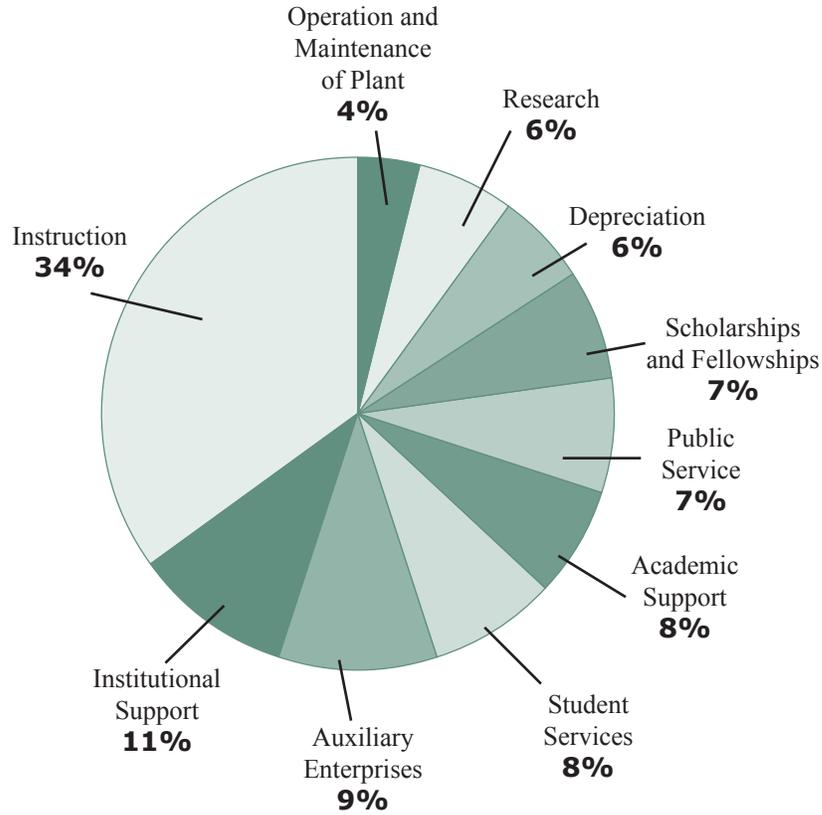
	2011	2010
Operating:		
Personal services and benefits	\$ 248,042,454	\$ 231,612,839
Operations	90,555,290	76,711,421
Scholarships	29,218,295	23,430,855
Depreciation	<u>21,989,831</u>	<u>21,605,636</u>
Total operating	<u>389,805,870</u>	<u>353,360,751</u>
Nonoperating:		
Interest and other	<u>16,721,883</u>	<u>16,011,310</u>
Total expenses	<u>\$ 406,527,753</u>	<u>\$ 369,372,061</u>

TOTAL SOURCES OF FUNDS FISCAL YEAR 2011

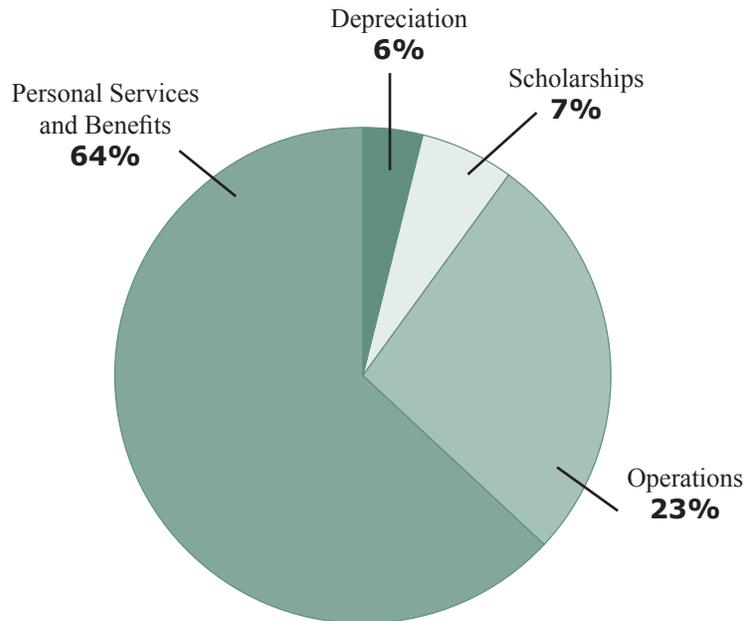


MANAGEMENT'S DISCUSSION AND ANALYSIS

OPERATING EXPENSES FUNCTIONAL CLASSIFICATION FISCAL YEAR 2011



OPERATING EXPENSES NATURAL CLASSIFICATION FISCAL YEAR 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets at June 30, 2011

At June 30, 2011, the University had \$618.7 million invested in capital assets. During the year the University added \$134.3 million in new capital assets and retired \$9.0 million of obsolete assets. Accumulated depreciation increased by \$14.3 million. Details of capital assets at June 30, 2011 and 2010 are as follows:

	2011	2010
Land	\$ 6,685,920	\$ 6,685,920
Infrastructure	94,745,027	86,650,262
Buildings and improvements	561,680,718	549,090,129
Equipment	63,810,379	63,753,494
Library books and media	47,251,328	48,059,442
Construction in progress	168,447,322	63,142,496
Accumulated depreciation	<u>(323,946,621)</u>	<u>(309,668,859)</u>
Total capital assets	<u>\$ 618,674,073</u>	<u>\$ 507,712,884</u>

Outstanding Debt at June 30, 2011

At June 30, 2011, the University had \$463.8 million in outstanding bonds, certificates of participation, other long-term obligations, and capital leases, a decrease of approximately \$27.7 million, or 6 percent from fiscal year 2010. This is due to the defeasance of \$18.7 million outstanding system revenue bonds and principal reductions of \$9 million.

The table below summarizes the University's outstanding debt from fiscal years 2011 and 2010.

	2011	2010
System revenue bonds	\$ 335,700,000	\$ 360,010,000
Capital leases	46,925,000	47,775,000
Certificates of participation	80,835,000	83,315,000
Other long-term obligations	<u>291,847</u>	<u>359,537</u>
Subtotal	<u>463,751,847</u>	<u>491,459,537</u>
Less deferred amount on refunding	(1,454,915)	(1,846,740)
Plus bonds premium	<u>4,249,579</u>	<u>5,203,457</u>
Total	<u>\$ 466,546,511</u>	<u>\$ 494,816,254</u>

Significant capital additions completed or in progress, and the resources that funded their acquisitions for fiscal year 2011 were:

- Health and Learning Center, \$54.8 million, bond proceeds
- Infrastructure and utility extensions, \$20.3 million, bond proceeds
- Skydome renovation, \$18.5 million, bond proceeds
- Liberal Arts renovation, \$6.4 million, bond proceeds
- Hotel and Restaurant Management renovation, \$5.4 million, bond proceeds
- North Union renovation, \$3.3 million, bond proceeds/unrestricted net assets
- Native American Center, \$3.2 million, donation/unrestricted net assets

Projects planned to commence in fiscal year 2012, funded from system revenue bonds and unrestricted net assets include:

- Parking Structure
- Science and Health Building
- Ardrey Auditorium renovation

In accordance with Arizona Revised Statutes § 15-1670, NAU receives \$5.9 million in state appropriations annually for lease-purchase capital financing of research infrastructure projects.

MANAGEMENT'S DISCUSSION AND ANALYSIS

ECONOMIC OUTLOOK

Arizona's economy improved marginally in 2010-11. In June 2010, the state's unemployment rate was 10.0% and was half a percentage point above the national rate. By June 2011, the state's unemployment rate had dropped to 9.3%, nearly matching the national rate of 9.2%. But unfortunately the improvement came from people who quit looking for a job, not from an increase in employment. In the last twelve months, Arizona has created only 7,300 new jobs (0.3%) in an economy of over 2.3 million jobs. This in no way matches the growth nationally which is widely described as anemic. The private sectors of Arizona's economy have seen some improvement, adding 21,300 jobs in the last month. Meanwhile, employment in the public sectors continues to decline with the federal government down 5,000 jobs (-7.8%), state government nearly unchanged with 500 new jobs (1.4%) and local government down 9,500 jobs (-3.8%) with over half that decline due to cuts in local education.

The national economy is making slow and somewhat uneven progress. After substantial job losses in 2008 and 2009, the national economy has had positive job growth monthly since March 2010 averaging about 147,000 new jobs a month. While this is not nearly enough to lower the unemployment rate to desired levels, it does indicate that other states are not experiencing the economic troubles that plague Arizona. The near-term outlook through 2011 and into the early part of 2012 is that a double-dip recession is unlikely and that inflation will remain near current levels. But compared to previous recoveries, this time will be different and much more subdued. In much of the previous decade, our growth was excessive due to the growth of consumption through the addition of credit. The deleveraging process will be long and painful, but it is underway for businesses and consumers.

Rising revenue collections coupled with decreased state appropriations in FY2012 indicate that the state will likely collect more than it expends in fiscal years 2012 and 2013. But the loss of the 1¢ additional sales tax in FY2014 is forecast to push the state budget back into a deficit position. The unexpected increase in tax collections, especially sales tax collections, are not likely to be retained for an extended period of time.

Since Northern Arizona University is subject to the same economic variables that affect other entities, it is not possible to predict future outcomes. Management is well aware of the challenges ahead and is working diligently to continue to provide quality education and research activities to the State of Arizona and to the nation as a whole.

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMBINED SOURCES AND USES OF FUNDS For the Year Ended June 30, 2011

SOURCES

Tuition and Fees, Net of Scholarship Allowances

32.3%

\$ 147,223,815

Net of \$57,122,056 for scholarship allowances.

State Appropriations

28.2%

\$ 128,528,500

Includes legislative appropriations from state of Arizona general revenue for current operations of the University and \$1,310,400 for financial aid.

Government Grants and Contracts

18.1%

\$ 82,509,087

Includes revenues of \$71,879,681 from federal grants and contracts, \$3,228,711 from state grants and contracts, and \$7,400,695 from local government grants and contracts.

Auxiliary Enterprises

10.3%

\$ 47,172,569

Operations of substantially self-supporting activities such as student housing, student unions, and intercollegiate athletics.

Other Sources

5.8%

\$ 26,256,893

Includes \$831,409 additions to permanent endowments, \$2,582,189 capital grants and gifts, \$5,900,000 capital appropriations and \$10,602,600 other operating and \$6,340,695 nonoperating miscellaneous revenues.

Share of State Sales Tax

2.5%

\$ 11,188,640

University's share of state sales tax collections from Proposition 301.

Private Gifts, Grants, and Contracts

2.1%

\$ 9,439,509

Includes gifts, grants, and contracts for scholarships, endowments, and plant facility additions.

Investment Income

0.7%

\$ 2,983,535

Net earnings and losses from short-term investments of funds not necessary for immediate operating expenses and long-term investment of endowment and bond-retirement sinking funds.

Federal Fiscal Stabilization Funds

0.0%

\$ 291,665

Fiscal year 2010 pass-through grant from the federal government under the American Recovery and Reinvestment Act.

Total Sources

\$ 455,594,213

Note: The Combined Sources and Uses of Funds is presented to highlight major financial data. The explanations provided are not intended to be all inclusive. This summary is presented to give an overview of total University financial operations. Operating and nonoperating funds are included. Sources and Uses are allocated and controlled by budgets.

MANAGEMENT'S DISCUSSION AND ANALYSIS

COMBINED SOURCES AND USES OF FUNDS For the Year Ended June 30, 2011

USES

Instruction and Academic Support

40.0%

\$ 162,437,455

Instruction, totaling \$132,116,474, includes expenses of academic departments and other organizational units for undergraduate and graduate courses, and for occupational or technical instruction, including academic year, summer sessions, and continuing education. Academic support, totaling \$30,320,981, includes libraries, audio-visual services, and academic administration.

Student Services and Institutional Support

18.2%

\$ 73,903,963

Student services, totaling \$32,994,864 includes areas such as admissions, registrar, minority services, counseling, placement, student aid administration, and health services. Institutional support, totaling \$40,909,099, includes executive management, financial operations, computing support, human resource services, security, and University relations.

Research and Public Service

12.4%

\$ 50,478,594

Research, totaling \$23,178,173 consists of activities in which the primary objective is the discovery or application of knowledge that may be sponsored by external agencies or separately budgeted by organizational units within the University. Public service, totaling \$27,300,421 includes activities that make available to the general public the benefits of the instructional or research activities and include local school consortiums and public broadcasting.

Auxiliary Enterprises

8.4%

\$ 34,351,311

Expenses of organizational units that furnish services to students, faculty and staff, and the general public for a fee directly related to the cost of the service and are managed as essentially self-supporting activities.

Scholarships and Fellowships

7.2%

\$ 29,218,295

Scholarships and fellowships are awarded to students enrolled in formal coursework for which the students are not required to perform personal services or repay the awards.

Depreciation

5.4%

\$ 21,989,831

Depreciation expense of capital assets over their useful lives.

Operation and Maintenance of Plant

4.3%

\$ 17,426,421

Represents expenses for the operation and maintenance of plant, including administration, maintenance and custodial services, landscaping and grounds upkeep, minor repairs and renovations, utilities, and property insurance.

Other Uses

4.1%

\$ 16,721,883

Other uses include \$14,023,085 in interest expense on capital asset-related debt, a \$1,240,199 net loss on disposal of capital assets, and other nonoperating expenses of \$1,458,599.

Total Uses

\$ 406,527,753

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS June 30, 2011

ASSETS

Current assets:

Cash and cash equivalents	\$ 95,476,892
Investments	64,584,158
Receivables, net of allowance for uncollectibles:	
Accounts receivable	20,269,301
Accrued interest	667,552
Endowment	26,608
Government grants and contracts	13,488,213
Student loans, current portion	765,062
State appropriation receivable	30,494,800
Other assets	1,808,637
Inventories	360,930
Total current assets	<u>\$ 227,942,153</u>

Noncurrent assets:

Restricted cash and cash equivalents held by trustee for capital projects	\$ 50,199,597
Investments	25,504,069
Student loans receivable, net of allowance	4,806,004
Endowment investments	18,295,864
Other noncurrent assets	365,628
Capital assets, not being depreciated	175,133,242
Depreciable capital assets, net of depreciation	443,540,831
Total noncurrent assets	<u>\$ 717,845,235</u>

Total assets

\$ 945,787,388

LIABILITIES

Current liabilities:

Accounts payable	\$ 20,758,240
Accrued payroll and employee benefits	11,588,365
Interest payable	4,262,862
Deferred revenue	14,270,392
Accrued compensated absences	5,077,075
Deposits held in custody for others	4,022,181
Current portion of long-term debt funded by:	
University operating revenues	6,987,048
State appropriations and share of state sales tax	2,575,000
Total current liabilities	<u>\$ 69,541,163</u>

Noncurrent liabilities:

Deposits held in custody for others	\$ 1,365,002
Long-term debt funded by:	
University operating revenues	326,896,463
State appropriations, share of state sales tax, and lottery revenue	130,088,000
Total noncurrent liabilities	<u>\$ 458,349,465</u>

Total liabilities

\$ 527,890,628

NET ASSETS

Invested in capital assets, net of related debt	\$ 200,273,865
Restricted:	
Nonexpendable:	
Scholarships and fellowships	12,030,960
Student loans	7,016,329
Expendable:	
Scholarships and fellowships	4,903,629
Academic department uses	11,462,213
Unrestricted	182,209,764
Total net assets	<u>\$ 417,896,760</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION - Component Units June 30, 2011

	NAU FOUNDATION	NACFFC	TOTAL
ASSETS			
Cash and cash equivalents	\$ 2,501,894	\$ 12,141	\$ 2,514,035
Investments	90,645,526		90,645,526
Accounts receivable	178,741	181,706	360,447
Prepaid expense		7,204	7,204
Unconditional promises to give (net of allowance)	6,757,270		6,757,270
Assets held by trustee	3,254,769	7	3,254,776
Property, plant and equipment, net of depreciation	18,487		18,487
Net investment in sales-type lease	3,162,931	46,925,000	50,087,931
Educational broadcasting system licenses	5,129,470		5,129,470
Other assets	4,780,023	1,367,690	6,147,713
TOTAL ASSETS	<u>\$ 116,429,111</u>	<u>\$ 48,493,748</u>	<u>\$ 164,922,859</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 197,466	\$ 178,847	\$ 376,313
Bonds payable		46,894,288	46,894,288
Assets held in custody for others	19,193,176		19,193,176
Deferred revenue	5,429,810	22,204	5,452,014
Other liabilities	1,295,152		1,295,152
Total liabilities	<u>\$ 26,115,604</u>	<u>\$ 47,095,339</u>	<u>\$ 73,210,943</u>
NET ASSETS			
Unrestricted	\$ 28,823,767	\$ 1,398,409	\$ 30,222,176
Temporarily restricted	22,262,804		22,262,804
Permanently restricted	39,226,936		39,226,936
Total net assets	<u>\$ 90,313,507</u>	<u>\$ 1,398,409</u>	<u>\$ 91,711,916</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 116,429,111</u>	<u>\$ 48,493,748</u>	<u>\$ 164,922,859</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For the Year Ended June 30, 2011

REVENUES

Operating Revenues

Tuition and fees, net of scholarship allowances of \$57,122,056	\$ 147,223,815
Government grants and contracts	26,185,136
Private grants and contracts	1,436,389
Auxiliary enterprises	
Residence life, net of scholarship allowances of \$4,501,388	29,479,928
Other auxiliaries	17,692,641
Other	10,602,600
Total operating revenues	\$ 232,620,509

EXPENSES

Operating Expenses

Educational and general:	
Instruction	\$ 132,116,474
Research	23,178,173
Public service	27,300,421
Academic support	30,320,981
Student services	32,994,864
Institutional support	40,909,099
Operation and maintenance of plant	17,426,421
Scholarships and fellowships	29,218,295
Auxiliary enterprises	34,351,311
Depreciation	21,989,831
Total operating expenses	\$ 389,805,870
Operating loss	\$ (157,185,361)

NONOPERATING REVENUES AND (EXPENSES)

State appropriations	\$ 128,528,500
Share of state sales tax - technology and research initiative funding	11,188,640
Government grants	56,323,951
Private gifts and grants	8,003,120
Federal fiscal stabilization funds	291,665
Net investment income	2,983,535
Interest expense on capital asset related debt	(14,023,085)
Loss on disposal of capital assets	(1,240,199)
Other nonoperating revenues, net	4,882,096
Total nonoperating revenues and expenses	\$ 196,938,223

Income before other revenues, expenses, gains or losses **\$ 39,752,862**

Capital appropriations	\$ 5,900,000
Capital grants and gifts	2,582,189
Additions to permanent endowments	831,409

Increase in net assets **\$ 49,066,460**

NET ASSETS

Total net assets, July 1, 2010	\$ 368,830,300
Total net assets, June 30, 2011	<u>\$ 417,896,760</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES - COMPONENT UNITS For the Year Ended June 30, 2011

	NAU FOUNDATION	NACFFC	TOTAL
CHANGES IN UNRESTRICTED NET ASSETS			
Unrestricted support	\$ 33,556		\$ 33,556
Investment earnings	2,906,168	\$ 2,037,739	4,943,907
Licensing revenue	3,219,561		3,219,561
Rent		26,989	26,989
Other	918,190		918,190
Total unrestricted support	<u>\$ 7,077,475</u>	<u>\$ 2,064,728</u>	<u>\$ 9,142,203</u>
Net assets released from restrictions	9,553,830		9,553,830
Total unrestricted revenues and support	<u>\$ 16,631,305</u>	<u>\$ 2,064,728</u>	<u>\$ 18,696,033</u>
Expenses:			
Scholarships	\$ 1,771,380		\$ 1,771,380
Operating	5,274,410	\$ 26,989	5,301,399
Interest		2,178,117	2,178,117
Educational purposes	2,669,356		2,669,356
Amortization and depreciation	1,443,991	60,282	1,504,273
Total expenses	<u>\$ 11,159,137</u>	<u>\$ 2,265,388</u>	<u>\$ 13,424,525</u>
Increase (decrease) in unrestricted net assets	<u>\$ 5,472,168</u>	<u>\$ (200,660)</u>	<u>\$ 5,271,508</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Public contributions	\$ 5,715,341		\$ 5,715,341
Investment earnings	10,615,745		10,615,745
Loss on uncollectible pledges	(333,239)		(333,239)
Other income changes	415,498		415,498
Net assets released from restrictions	(9,553,830)		(9,553,830)
Increase in temporarily restricted net assets	<u>\$ 6,859,515</u>		<u>\$ 6,859,515</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Public contributions	\$ 2,847,411		\$ 2,847,411
Investment earnings	40,495		40,495
Other income changes	2,741		2,741
Increase in permanently restricted net assets	<u>\$ 2,890,647</u>		<u>\$ 2,890,647</u>
INCREASE (DECREASE) IN NET ASSETS	<u>\$ 15,222,330</u>	<u>\$ (200,660)</u>	<u>\$ 15,021,670</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$ 75,091,177</u>	<u>\$ 1,599,069</u>	<u>\$ 76,690,246</u>
NET ASSETS, END OF YEAR	<u>\$ 90,313,507</u>	<u>\$ 1,398,409</u>	<u>\$ 91,711,916</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS For the Year Ended June 30, 2011

Cash flows from operating activities:	
Tuition and fees	\$ 143,535,758
Grants and contracts	27,406,282
Payments to suppliers and providers of goods and services	(83,351,435)
Payments to employees	(243,378,428)
Payments for scholarships and fellowships	(29,218,295)
Loans issued to students	(814,279)
Collection of loans to students	889,443
Auxiliary enterprise receipts:	
Residence halls	28,475,054
Other auxiliaries	13,633,380
Other receipts	5,638,191
Net cash used for operating activities	<u>\$ (137,184,329)</u>
Cash flows from noncapital financing activities:	
State appropriations	\$ 128,527,139
Share of state sales tax	11,188,640
Federal fiscal stabilization funds	291,665
Gifts and grants for other than capital purposes	64,327,071
Federal direct student lending received	155,186,189
Federal direct student lending disbursed	(155,425,310)
Funds held for others received	13,315,369
Funds held for others disbursed	(13,320,358)
Financial aid trust funds	831,408
Other receipts	4,882,096
Net cash provided by noncapital financing activities	<u>\$ 209,803,909</u>
Cash flows from capital financing activities:	
Capital appropriations	\$ 5,900,000
Proceeds from sale of capital assets	65,433
Capital grants and gifts received	2,343,419
Purchases of capital assets	(134,017,883)
Principal paid on capital debt and leases	(28,091,235)
Interest paid on capital debt and leases	(13,360,202)
Net cash used for capital financing activities	<u>\$ (167,160,468)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	\$ 96,058,823
Interest on investments	3,209,382
Purchase of investments	(106,376,118)
Net cash used for investing activities	<u>\$ (7,107,913)</u>
Net decrease in cash and cash equivalents	\$ (101,648,801)
Cash and cash equivalents - beginning of year	247,325,290
Cash and cash equivalents - end of year	<u>\$ 145,676,489</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (157,185,361)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	21,989,831
Changes in assets and liabilities - cash increase (decrease) related to:	
Receivables:	
Accounts receivable	(8,369,892)
Government grants and contracts	128,940
Student loans receivables and accrued interest from student loans	79,215
Inventories	(108,609)
Other assets	(1,162,372)
Accounts payable	7,166,061
Accrued payroll and employee benefits	(102,406)
Deferred revenue	159,388
Accrued compensated absences	220,876
Net cash used for operating activities	<u>\$ (137,184,329)</u>
Significant noncash transaction:	
State appropriation receivable	\$ 30,494,800

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 1—Summary of Significant Accounting Policies

Financial Statement Presentation

The accounting policies of the University conform to U.S. generally accepted accounting principles applicable to public institutions of higher education engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

Reporting Entity

The financial statements of the University include all monies, financial transactions, and activities for which the University has financial accountability. Fiscal responsibility for the University remains with the State of Arizona; therefore, the University is considered part of the reporting entity of the State for financial reporting purposes. The accompanying financial statements present the activities of the University and its discretely presented component units, the Northern Arizona University Foundation, Inc. (Foundation) and the Northern Arizona Capital Facilities Finance Corporation (NACFFC).

The Foundation was incorporated as a legally separate not-for-profit corporation in the State of Arizona in January 1959, and operates exclusively for the benefit of Northern Arizona University. The Foundation receives gifts and bequests, administers and invests in securities and property, and disburses payments to and on behalf of the University for advancement of its mission.

NACFFC was incorporated in October 2001, as a legally separate not-for-profit corporation under the laws of the State of Arizona for the purpose of acquiring, developing, constructing, maintaining and operating student housing and other capital facilities and equipment for the use and benefit of the University's students.

Although the University does not control the timing or amount of receipts from the Foundation, or the NACFFC, the restricted resources of both the Foundation, and the NACFFC, can only be used by, or for the benefit of the University or its constituents. Consequently, both the Foundation and the NACFFC are considered component units of the University and are discretely presented in the University's financial statements. For financial reporting purposes, only the statement of financial position and the statement of activities of the component units are included in the University's financial statements, as required by generally accepted accounting principles for public colleges and universities.

For financial reporting purposes, the Foundation and the NACFFC follow the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Accordingly, those financial statements have been reported on separate pages following the respective counterpart statements of the University. The Foundation and the NACFFC have a June 30 year end. Complete financial statements as originally presented for the Foundation and the NACFFC can be obtained from the Northern Arizona University Comptroller's Office, P.O. Box 4069, Flagstaff, AZ 86011.

During the year ended June 30, 2011, the Foundation distributed \$5.3 million to the University for restricted and unrestricted purposes.

Basis of Accounting

The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. All significant transactions resulting from internal activity have been eliminated.

The University follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The University has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The statement of net assets provides information about the assets, liabilities, and net assets of the University at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy University obligations. Invested in capital assets net of related debt, represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended and monies that are restricted for the purpose of issuing student loans. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

The statement of revenues, expenses, and changes in net assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses are those that generally result from exchange transactions generated from providing instructional, research, public, and auxiliary services, which are consistent with the University's mission. Accordingly, revenues such as tuition and fees, sales and services of auxiliary enterprises and most government and nongovernment research grants and contracts are considered operating. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, nonexchange grants, gifts, and investment income. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

The statement of cash flows provides information about the University's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital financing, or investing activities.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The University has both restricted and unrestricted resources available for its operations. Generally, the use of these resources is managed at the department level. Restricted resources are primarily externally provided sponsored research grants and contracts, and externally provided student financial aid. When both restricted and unrestricted resources are available for use, typically restricted resources will be used first. University policy is that the funding source to be used is determined by each department based on: (1) relative priorities of the department in accordance with University strategic initiatives, (2) externally imposed matching requirements of the restricted grants and contracts, and (3) any pertinent lapsing provisions of the restricted or unrestricted funding resources available for the expense.

Cash and Cash Equivalents

The University considers all short-term, highly liquid investments with maturities of less than three months from the date of acquisition to be cash equivalents. Cash and investments held by trustee, funds invested through the State Treasurer's Local Government Investment Pool, and Money Market Mutual Funds are also considered cash equivalents.

Investments

Investments are reported at fair value. Fair value typically is the quoted market price for investments.

Receivables

Student loans and accounts receivable as of June 30, 2011, are reported less allowances for both estimated uncollectible amounts and collection costs of \$1,102,100 and \$4,224,600 respectively.

The fiscal year 2011 appropriation to Arizona Board of Regents for the support and maintenance of institutions under its jurisdiction were deferred in the amount of \$200 million to fiscal year 2012 with payment to be no later than October 1, 2011. Northern Arizona University's \$30,494,800 portion of the \$200 million deferred appropriation payment was recorded as a receivable in fiscal year 2011.

Inventories

Inventories are stated at the lower of cost or market. The cost of inventories is determined generally using the first-in, first-out or weighted average cost methods.

Special Collections

The University does not capitalize its special collections because the items are held for educational and research purposes and not for financial gain. The items are preserved, unencumbered, and protected. It is the University's policy to acquire other items to further or enhance

collections with any proceeds from the disposal of special collection items.

Compensated Absences

Compensated absences consist of vacation leave and compensatory time earned by employees based on services already rendered. Employees may accumulate up to 264 hours of vacation depending on years of service and full-time equivalent employment status, but any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Upon termination of employment, all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status, and compensatory time are paid to employees. Accordingly, vacation benefits and compensatory time are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 500 hours of sick leave are paid a formulated benefit amount. The University makes contributions each pay period to the State's Retiree Accumulated Sick Leave Fund and the State makes benefit payments directly to the retired employees from the fund. Consequently, the University does not have liability for these sick leave benefits.

Investment Income

Investment income is composed of interest, dividends, and net changes in fair value of applicable investments.

Scholarship Allowances

Student tuition and fees revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. A scholarship discount and allowance is the difference between the stated charge for goods and services provided by the University and the amount that is paid by students or third parties making payments on behalf of the student.

Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the University are considered to be scholarship allowances. These allowances are netted against tuition and fees and certain auxiliary enterprise revenues in the statement of revenues, expenses, and changes in net assets.

Capital Assets

Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building improvements	\$5 thousand	Straight Line	20 years
Buildings	All	Straight Line	40 years
Infrastructure	All	Straight Line	20-40 years
Land	All	None	
Equipment	\$5 thousand	Straight Line	5-15 years
Library books and media	All	Straight Line	10 years
Intangible assets:			
Computer software > \$10 million	\$10 million	Straight Line	10 years
Computer software < \$10 million	\$1 million	Straight Line	5 years
All other (1)	\$100 thousand	Straight Line	(1)

(1) Includes websites, non-software licenses & permits, patents, copyrights and trademarks, rights-of-way and easements, natural resource extraction rights and other intangible assets. In general, the estimated useful life is the shorter of the legal or the estimated useful life.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 2—Deposits and Investments

Arizona Revised Statutes (A.R.S.) § 15-1668 require that deposits of the University not covered by federal deposit insurance, be secured by government bonds or by a safekeeping receipt of the institution accepting the deposit. Further, policy regarding deposits is provided by the Arizona Board of Regents (ABOR). Deposits can be made only at depository banks approved by the Board. A.R.S. and ABOR policies constitute the University's policy regarding custodial credit risk for deposits.

There is no statutory requirement that governs university investment activities. A.R.S. § 15-1625 gives the ABOR jurisdiction and control over the universities, and A.R.S. § 15-1626 allows ABOR to authorize the universities to adopt regulation, policies, rules, or measures as deemed necessary. ABOR investment policies require that the University invest its operating funds only in the State Treasurer's Local Government Investment Pool, collateralized time certificates of deposit and repurchase agreements, U.S. Treasury securities, and obligations of other agencies sponsored by the federal government. In addition, ABOR has authorized the University to establish an investment committee. The investment committee establishes investment policies and makes investment decisions. ABOR policies guide the investment committee decisions. The University's deposit and investment policies mirror that of the ABOR policies.

University policy states that restricted (gift) and endowment funds will be invested according to the conditions stipulated by the donor, but if no conditions are imposed, such funds may be invested under the direction of the investment committee in such a manner as to obtain the most favorable rate of return and income stability.

The bond indentures constitute the investment policy for University monies held with bond trustees. The bond indentures authorize the bond trustees to invest in obligations of or guaranteed by the federal government or any agency or instrumentality thereof, municipal obligations, collateralized certificates of deposit with federally insured banks, trust companies, savings and loan associations within the State of Arizona, or repurchase agreements.

Deposits

At June 30, 2011 cash on hand was \$21,462, the carrying amount of the University's deposits was \$67,693,008 and the bank balance was \$76,906,268. Beyond the requirements established by A.R.S. and ABOR, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2011, \$54,854,704 of the University's bank balance was uninsured with collateral held by the pledging financial institution.

Investments	Amount
U.S. agency securities	\$ 89,611,605
State Treasurer's Investment Pool 5	7,600,162
Bond Trustee Funds:	
Government Money Market Mutual Fund	50,199,597
Money Market Mutual Funds	20,000,000
NAU Foundation Investment Pool	18,934,746
	<u>\$ 186,346,110</u>

U.S. agency securities include Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and the Federal National Mortgage Association securities

The State Board of Investment provides oversight for the State Treasurer's investment pools. The fair value of the University's investment in the pool approximates the value of the University's pool shares and the University's shares are not identified with specific investments.

Trust agreements between the University and the NAU Foundation, Inc. authorize the Foundation to invest certain University restricted (gift) and endowment monies. The NAU Foundation Investment Pool invests in a variety of asset classes, including common stocks, fixed income and international equity funds. The Foundation's Board of Directors appointed Investment Committee is responsible for oversight of the Pool in accordance with NAU Foundation policies and procedures. The fair value of the University's position in the Pool, is based on the University's proportionate share of the Pool, and is not identified with specific investments. The University's ownership interest is recorded in the Foundation's records.

The Arizona Student Financial Aid Trust Fund (ASFAT) was established in accordance with A.R.S. §15-1642 for the purpose of providing aid to students with verifiable financial need. The Northern Arizona University Foundation holds and manages the University's share of ASFAT within its pool. The University's ownership interest is recorded in the Northern Arizona University Foundation's records. The fair value of the ASFAT at June 30, 2011 was \$12,567,050.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Credit Risk

For its operating funds, University policy requires negotiable certificates of deposit; corporate bonds, debentures, and notes; banker acceptances; and State of Arizona bonds to carry a minimum rating of BBB or better from Standard and Poor's Rating Service. There is no formal policy with regards to gift and endowment funds. Gift and endowment funds are held in the NAU Foundation Investment Pool, which is not rated. At June 30, 2011, credit risks for the University's investments in debt securities were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard and Poors	\$ 89,611,605
State Treasurer's Investment Pool 5	AAAf/S1+	Standard and Poors	7,600,162
Bond Trustee Funds:			
Government Money Market Mutual Fund	AAAm	Standard and Poors	50,199,597
Money Market Mutual Funds	AAAm	Standard and Poors	20,000,000
			\$ 167,411,364

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy in regards to custodial credit risk. At June 30, 2011, the University had \$89,611,605 of U.S. agency securities that were uninsured and held by the counterparty not in the University's name.

Concentration of Credit Risk

University policy limits investments in a single issuer to 5 percent or less of the fair value of the total portfolio. However, securities issued by the federal government or its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities are exempt from this provision. The following investments represent five percent or more of the University's investments at June 30, 2011: Federal National Mortgage Association, 31.99 percent, Federal Home Loan Bank, 10.73 percent, and Federal Home Loan Mortgage Corporation securities 5.37 percent.

Interest Rate Risk

University policy for its operating funds limits the maximum maturity of any fixed or variable rate security to five years.

Investment type	Fair Value	Maturity	
		Less than 1 Year	1-5 Years
Government Money Market Mutual Fund	\$ 50,199,597	\$ 50,199,597	
Money Market Mutual Fund	20,000,000	20,000,000	
State Treasurer's Investment Pool 5	7,600,162	7,600,162	
U.S. agency securities**	89,611,605	2,019,680	\$ 87,591,925*
Total	\$ 167,411,364	\$ 79,819,439	\$ 87,591,925

*These securities mature in fiscal years 2013 through 2016; of this amount, \$62,566,725 is currently callable.

**At June 30, 2011 the University held \$89,611,605 or 48 percent of investments in Federal Agency securities, including Federal National Mortgage Association, Federal Home Loan Mortgage Corporation and Federal Home Loan Banks, which may be considered to be highly sensitive to interest rate fluctuations because borrower repayment terms may vary.

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets is as follows:

Cash, deposits and investments:

Cash on hand	\$ 21,462
Cash in bank	67,693,008
Total investments	186,346,110
	\$ 254,060,580

Statement of Net Assets:

Cash and cash equivalents	\$ 95,476,892
Current investments	64,584,158
Restricted cash and cash equivalents held by trustee for capital projects	50,199,597
Noncurrent investments	25,504,069
Endowment investments	18,295,864
	\$ 254,060,580

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Retirements	Transfers	Balance June 30, 2011
Capital assets not being depreciated:					
Land	\$ 6,685,920				\$ 6,685,920
Construction in progress	<u>63,142,496</u>	<u>\$ 126,410,149</u>	<u>\$ 312,501</u>	<u>\$ (20,792,822)</u>	<u>168,447,322</u>
Total capital assets not being depreciated	<u>69,828,416</u>	<u>126,410,149</u>	<u>312,501</u>	<u>(20,792,822)</u>	<u>175,133,242</u>
Capital assets being depreciated:					
Infrastructure	86,650,262	794,357		7,300,408	94,745,027
Buildings and improvements	549,090,129	1,267,286	2,169,111	13,492,414	561,680,718
Equipment	63,753,494	5,337,030	5,280,145		63,810,379
Library books and media	<u>48,059,442</u>	<u>470,310</u>	<u>1,278,424</u>		<u>47,251,328</u>
Total capital assets being depreciated	<u>747,553,327</u>	<u>7,868,983</u>	<u>8,727,680</u>	<u>20,792,822</u>	<u>767,487,452</u>
Less accumulated depreciation for:					
Infrastructure	30,733,092	2,836,866			33,569,958
Buildings and improvements	189,288,213	14,130,389	1,464,167		201,954,435
Equipment	45,180,977	4,069,690	4,969,478		44,281,189
Library books and media	<u>44,466,577</u>	<u>952,886</u>	<u>1,278,424</u>		<u>44,141,039</u>
Total accumulated depreciation	<u>309,668,859</u>	<u>21,989,831</u>	<u>7,712,069</u>		<u>323,946,621</u>
Total capital assets being depreciated, net	<u>437,884,468</u>	<u>(14,120,848)</u>	<u>1,015,611</u>	<u>20,792,822</u>	<u>443,540,831</u>
Capital assets, net	<u>\$ 507,712,884</u>	<u>\$ 112,289,301</u>	<u>\$ 1,328,112</u>	<u>\$</u>	<u>\$ 618,674,073</u>

Construction - The University had major contractual commitments related to various capital projects at June 30, 2011, including the construction of a Health & Learning Center, a Native American Center, major building renovations and major infrastructure upgrades. At June 30, 2011, the University had spent \$159.6 million on these projects and had remaining contractual commitments with contractors of \$19.3 million. These projects are being financed with a combination of system revenue bond, series 2008 and 2009, revenue bond series 2010, and University reserves.

Note 4—Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Due Within One Year
Long-term obligations	\$ 359,537	\$	\$ 67,690	\$ 291,847	\$ 69,736
Capital leases	47,775,000		850,000	46,925,000	915,000
Certificates of participation	83,315,000		2,480,000	80,835,000	2,575,000
Revenue bonds payable	360,010,000		24,310,000	335,700,000	5,835,000
Less deferred amount on refunding	(1,846,740)		(391,825)	(1,454,915)	(129,669)
Discounts/premiums	5,203,457		953,878	4,249,579	296,981
Total long-term liabilities	<u>\$ 494,816,254</u>	<u>\$</u>	<u>\$ 28,269,743</u>	<u>\$ 466,546,511</u>	<u>\$ 9,562,048</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

The University's bonded debt and certificates of participation (COPs) consist of various issues that are generally callable at a pre-scribed date with interest payable semiannually. All issues are at a fixed rate. Bond proceeds primarily pay for acquiring, constructing or renovating capital facilities. System revenue bonds are repaid from pledged gross revenues that primarily consist of student tuition and fees, and certain auxiliary revenues.

Bonds Payable and Certificates of Participation at June 30, 2011 (dollars in thousands)

	Average Interest Rate	Final Maturity	Balance 7/01/2010	Additions	Reductions	Balance 6/30/2011	Current Portion
Bonds:							
2002 System Revenue	4.841%	6/1/2022	\$ 6,170	\$	\$ (6,170)	\$	\$
2003 System Revenue	5.325%	6/1/2016	4,235		(4,235)		
2004 System Refunding	4.749%	6/1/2034	36,465		(11,875)	24,590	3,735
2005 System Revenue	4.685%	6/1/2040	14,345		(245)	14,100	255
2006 System Refunding	4.675%	6/1/2034	42,090		(60)	42,030	65
2007 System Revenue	4.929%	6/1/2037	36,440		(700)	35,740	730
2008 System Revenue	5.041%	6/1/2038	40,980		(1,025)	39,955	1,050
2009A System Revenue	6.490%	6/1/2039	108,860			108,860	
2009B System Revenue	5.000%	6/1/2016	5,640			5,640	
2010 Revenue	6.164%	8/1/2030	64,785			64,785	
Subtotal: Par Amount of Bonds			\$ 360,010	\$	\$ (24,310)	\$ 335,700	\$ 5,835
Certificates of Participation:							
2004 Certificates of Participation	4.852%	9/1/2030	\$ 34,740	\$	\$ (1,010)	\$ 33,730	\$ 1,050
2005 Certificates of Participation	4.650%	9/1/2030	37,095		(1,120)	35,975	1,160
2006 Certificates of Participation	4.350%	9/1/2030	11,480		(350)	11,130	365
Subtotal: Par Amount of COPS			\$ 83,315	\$	\$ (2,480)	\$ 80,835	\$ 2,575
Total Par Amount of Bonds and COPS			\$ 443,325	\$	\$ (26,790)	\$ 416,535	\$ 8,410
Premium/(Discount) on Sale of Bonds and COPS			\$ 5,203	\$	\$ (954)	\$ 4,249	\$ 297
Deferred Amount on Refundings			(1,847)		392	(1,455)	(130)
Total Bonds Payable and COPS			\$ 446,681	\$	\$ (27,352)	\$ 419,329	\$ 8,577

The following schedule details debt service requirements to maturity for the University's bonds payable at June 30, 2011.

Year ending June 30,	Revenue Bonds	
	Principal	Interest
2012	\$ 5,835,000	\$ 18,547,906
2013	6,110,000	18,275,187
2014	6,105,000	17,995,218
2015	6,650,000	17,708,982
2016	6,975,000	17,358,467
2017-21	56,990,000	79,097,326
2022-26	68,300,000	62,848,108
2027-31	83,450,000	41,146,411
2032-36	64,025,000	19,990,421
2037-40	31,260,000	3,563,454
Total	\$ 335,700,000	\$ 296,531,480

The following schedule details debt service requirements to maturity for the University's certificates of participation payable at June 30, 2011.

Year ending June 30,	Certificates of Participation	
	Principal	Interest
2012	\$ 2,575,000	\$ 3,666,356
2013	2,670,000	3,565,760
2014	2,780,000	3,458,106
2015	2,890,000	3,338,977
2016	3,015,000	3,218,285
2017-21	17,215,000	13,883,967
2022-26	21,855,000	9,131,315
2027-31	27,835,000	3,066,072
Total	\$ 80,835,000	\$ 43,328,838

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Bonds

The University on December 15, 2010 had a cash defeasance of \$18,700,000 in Systems Revenue Bonds. Defeased were the following System Revenue Bonds:

- Series 2002 maturities totaling \$6,170,000 from 6/1/2011 to 6/1/2017, and 06/01/2021 to 6/01/2022,
- Series 2003 maturities totaling \$4,235,000 from 06/1/2011 to 06/01/2016, and
- Series 2004 maturities totaling \$8,295,000 from 06/1/2015 to 06/1/2017.

The defeasance set aside \$20,871,843 into escrow that purchased SLGS Certificates and Notes with maturity dates between 06/01/2011 and 06/01/2017. The present value of defeased debt prior to 12/15/2010 was \$23,178,980 and the net present value of savings was \$2,287,137.

In the current and prior years, the University defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2011 \$58,630,000 of such bonds outstanding are considered defeased.

The Series 2009A and 2010 Bonds were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act. As such, the University is eligible to receive direct payments from the U. S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the University must file certain required information with the Federal government between 90 and 45 days prior to the interest payment date. The amount paid to the University by the Federal government may be reduced or eliminated due to such issues as failure by the University to submit the required information, any amounts owed by the University to the Federal government, or changes in the law that would reduce or eliminate such payments. The University is currently not aware of any such issues that may adversely affect the amount of payments to be received from the Federal government related to such designated Build America Bonds. For accounting purposes, any direct payments received from the U. S. Treasury Department are recorded as nonoperating revenue.

For the 2010 revenue bonds, up to 80% of the debt service payments are payable from the University's SPEED (Stimulus Plan for Economic and Educational Development) revenue bond account monies, which are derived from certain revenues of the Arizona State Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the University's system revenue bonds.

The University has pledged portions of its gross revenues towards the payment of debt related to system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2011. The bonds generally provide financing for various capital projects of the University. These pledged revenues include student tuition and fees, certain auxiliary enterprises revenue, investment income, and indirect cost recovery revenue. Pledged revenues do not include state appropriations, gifts, endowment income, or other restricted revenues. At June 30, 2011 pledged revenues totaled \$220.5 million of which 9.2% (\$20.3 million) was required to cover current year debt service not related to this year's defeasance. Future pledged revenues required to pay all remaining related debt service for the bonds through final maturity of June 1, 2040 is \$632.2 million.

Funding responsibility for the June 30, 2011 outstanding debt (dollars in thousands)

	Current Portion	Noncurrent Portion	Total
From Northern Arizona University operating revenues	\$ 6,987	\$ 326,897	\$ 333,884
From State of Arizona provided state appropriations, share of state sales tax, and lottery revenue (NAU in substance acting as conduit)	2,575	130,088	132,663
	<u>\$ 9,562</u>	<u>\$ 456,985</u>	<u>\$ 466,547</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Capital Leases

On May 19, 2005, the University entered into a lease agreement with Pine Ridge Village/Campus Heights, LLC (PRV/CH). The Company is a subsidiary of the Northern Arizona Capital Facilities Finance Corporation (NACFFC). During the 28-year lease term, the University will make lease payments on two apartment-style student housing complexes, Pine Ridge Village (PRV), and McKay Village (MV). The University recorded a capital lease of \$13.2 million in fiscal 2005 for the PRV complex and a capital lease of \$22.7 million in fiscal year 2007 for the MV complex.

On September 1, 2006, the University entered into a lease agreement with North Campus Facilities L.L.C. (NCF), a subsidiary of the NACFFC. During the 30-year lease term, the University will make lease payments on a 41,000 sq. ft. conference center and 344 space parking garage (High Country Conference Center). The University recorded a capital lease of \$12.4 million in fiscal year 2008 for the High Country Conference Center. Lease payments are based on the debt service schedule of fixed rate bonds with an average coupon rate of 4.89%. Over the course of the project, the University contributed additional funds of \$12 million towards construction costs which were paid to NCF as additional rent, including \$2 million provided by the City of Flagstaff.

Capital lease commitments to lessors at June 30, 2011 based on present value of lease payments

	Average Interest Rate	Final Maturity	Balance June 30, 2010	Additions	Reductions	Balance June 30, 2011	Current Portion
Pine Ridge/McKay Village	4.61%	6/1/2033	\$ 35,845,000	\$	\$ 600,000	\$ 35,245,000	\$ 655,000
North Campus Facilities LLC	4.89%	6/1/2036	11,930,000		250,000	11,680,000	260,000
Total: Capital Leases			<u>\$ 47,775,000</u>	<u>\$</u>	<u>\$ 850,000</u>	<u>\$ 46,925,000</u>	<u>\$ 915,000</u>

Minimum lease payment commitments, including interest reimbursed to the lessor, for the capital leases described above are summarized in the table below.

Year ending June 30,	Capital Lease Payments	Capital Lease Assets – the book value, accumulated depreciation and net book value for capitalized leased assets as of June 30, 2011 were as follows:			
		Asset	Book Value	Accumulated Depreciation	Net Book Value
2012	\$ 3,058,392				
2013	3,094,858				
2014	3,133,648				
2015	3,167,720				
2016	3,206,060	Pine Ridge	\$ 13,225,000	\$ (2,313,016)	\$ 10,911,984
2017-20	13,229,988				
2021-25	17,447,366	McKay Village	\$ 22,685,000	\$ (2,834,071)	\$ 19,850,929
2026-30	18,483,741				
2031-35	13,221,961	Conference Center	\$ 24,679,964	\$ (2,462,808)	\$ 22,217,156
2036	815,750				
Total minimum lease payments	<u>\$ 78,859,484</u>	Total	<u>\$ 60,589,964</u>	<u>\$ (7,609,895)</u>	<u>\$ 52,980,069</u>
Less amount representing interest	<u>(31,934,484)</u>				
Present value of minimum lease payments	<u>\$ 46,925,000</u>				

Operating Leases

The University leases numerous class room facilities for extended campus instruction and a limited number of administrative facilities under long term lease agreements classified as operating leases for accounting purposes. Rental expenses under the terms of operating leases were \$2.9 million for the year ended June 30, 2011. The operating leases have remaining noncancelable terms from 1 to 6 years and provide renewal options. The future minimum payments required under the operating leases at June 30, 2011 were as follows:

Year ending June 30,	
2012	\$ 1,456,127
2013	841,444
2014	837,096
2015	724,262
2016	640,128
2017	314,207
Total minimum lease payments	<u>\$ 4,813,264</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 5—Retirement Plans

The University participates in a cost-sharing multiple-employer defined benefit pension, health, and long-term disability plan administered by the Arizona State Retirement System (ASRS) and a defined contribution pension plan available through one of three independent insurance and annuity companies approved by the Arizona Board of Regents.

Under the University's defined benefit plan, the ASRS (through its Retirement Fund) provides retirement (i.e., pension), death, and survivor benefits; the Health Benefit Supplement Fund provides health insurance premium benefits (i.e., a monthly subsidy); and the Long-Term Disability Fund provides long-term disability benefits. Benefits are established by state statute. The System is governed by the Arizona State Retirement System Board according to the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS issues a Comprehensive Annual Financial Report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85067-3910, or calling (602) 240-2000 or (800) 621-3778.

The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2011, active plan members were required by statute to contribute at the actuarially determined rate of 9.85 percent (9.60 percent for retirement and 0.25 percent for long-term disability) of the members' annual covered payroll and the University was required by statute to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, 0.59 percent for health insurance premium, and 0.25 percent for long-term disability) of the members' annual covered payroll.

The University's contributions for the current and two preceding years, all of which were equal to the required contributions, were as follows.

Years ended June 30,	Retirement Fund	Health Benefit Supplement Fund	Long-Term Disability Fund
2011	\$ 7,244,168	\$ 474,368	\$ 200,687
2010	\$ 6,222,744	\$ 492,477	\$ 296,901
2009	\$ 6,135,936	\$ 737,234	\$ 382,087

In accordance with A.R.S. § 15-1628, University faculty, academic professionals, and administrative officers have the option to participate in defined contribution pension plans. These plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. For the year ended June 30, 2011, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Service Company (Fidelity), were approved by the Board. Benefits under these plans depend solely on the contributed amounts and the returns earned on investments of those contributions. Contributions made by members vest immediately, and University contributions vest after five years of benefit eligible employment.

The distribution of member contributions and associated investment earnings are made in accordance with the member's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the member in the form of an annuity paid over a period that is not less than the member's life. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2011, plan members and the University were each required by statute to contribute an amount equal to 7 percent of a member's compensation.

Contributions to Retirement Plans

for the year ended June 30, 2011, are summarized below.

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	\$ 3,170,996	\$ 3,170,996	\$ 6,341,992
VALIC	\$ 294,239	\$ 294,239	\$ 588,478
Fidelity	\$ 1,471,287	\$ 1,471,287	\$ 2,942,574

Note 6—Risk Management

Pursuant to A.R.S. § 41-621, Northern Arizona University (University) participates in a self-insurance program administered by the State of Arizona, Department of Administration, Risk Management Section. The State's Risk Management Program covers the University, subject to certain deductibles, for risks of loss related to such situations as theft, damage and destruction of property, buildings, and equipment; errors and omissions; injuries to employees; natural disasters; and liability for acts or omissions of any nature while acting in authorized governmental or proprietary capacities and in the course and scope of employment or authorization, except as prescribed in A.R.S. § 41-621. Loss risks not covered by the Risk Management Section and where the University has no insurance coverage are losses resulting from contractual breaches and losses that arise out of and are directly attributable to an act of omission determined by a court to be a felony. From time to time, various claims and lawsuits associated with the normal conduct of University business are pending or may arise against the University.

In the opinion of University management, any losses from the resolution of any other pending claims or litigation not covered by the Risk Management Section should not have a material effect on the University's financial statements. All estimated losses for unsettled claims and actions of the state are determined on an actuarial basis and are included in the State of Arizona Comprehensive Annual Financial Report.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Note 7—Expense Classification

The University's operating expenses by natural and functional classification are summarized in the table below:

For the Year Ended June 30, 2011	Natural Classification				
	Personal Services and Benefits	Operations	Scholarships	Depreciation	Total
Functional Classification:					
Instruction	\$ 116,127,794	\$ 15,988,680			\$ 132,116,474
Research	16,542,311	6,635,862			23,178,173
Public service	14,491,223	12,809,198			27,300,421
Academic support	23,554,911	6,766,070			30,320,981
Student services	20,161,892	12,832,972			32,994,864
Institutional support	29,481,817	11,427,282			40,909,099
Operation and maintenance of plant	7,976,033	9,450,388			17,426,421
Scholarships and fellowships			\$ 29,218,295		29,218,295
Auxiliary enterprises	19,706,473	14,644,838			34,351,311
Depreciation				\$ 21,989,831	21,989,831
Total	\$ 248,042,454	\$ 90,555,290	\$ 29,218,295	\$ 21,989,831	\$ 389,805,870

Note 8—Discretely Presented Component Units Disclosures

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northern Arizona University Foundation, Inc. (Foundation) and Northern Arizona Capital Facilities Finance Corporation (NACFFC) including its Pine Ridge Village/Campus Heights and North Campus Facilities (limited liability companies) subsidiaries, have been prepared on the accrual basis of accounting.

Financial Statement Presentation

Both the Foundation and the NACFFC follow the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958-205), *Not-for-Profit - Presentation of Financial Statements*.

Under FASB ASC 958-205, the Foundation and the NACFFC are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets – include assets and contributions that are not restricted by donors or for which such restrictions have expired.
- Temporarily restricted net assets – include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundation), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified

as temporarily restricted if restrictions are satisfied in the same reporting period in which the contributions are received.

- Permanently restricted net assets – include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the board-approved payout be made available for program operations in accordance with donor restrictions.

Cash and Cash Equivalents

Highly liquid investments with an original maturity of three months or less are classified as cash equivalents and are stated at fair value.

Investments

The Foundation - Investments, consisting primarily of equity securities, U.S. government securities, and corporate bonds, with readily determinable market values are measured at fair value as of year-end. Donated investments are recorded at their fair values, as determined on the date of donation. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains, and losses on investments are recognized in the statement of activities. For management efficiency, investments of the unrestricted and restricted net assets are pooled, except for certain net assets that the board of directors or the donors have designated to be segregated and maintained separately.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Revenue Recognition

The Foundation - 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 rates commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

Contributions received for prospective endowments that have not yet met the minimum requirements for acceptance as an endowment are accumulated in temporarily restricted accounts. The accumulated contributions are transferred to permanently restricted endowment accounts when the minimum requirements are fulfilled.

NACFFC - Rent and lease income is recognized as payments become due. Payments received in advance will be deferred until earned.

Net Investments in Sales-Type Financing Leases

NACFFC - Net investments in sales-type financing leases are stated at the sum of the minimum lease payments less unearned income. Unearned income is amortized over the lease terms, which approximate the related bond terms. No valuation allowance has been established as title to the assets associated with the lease would be transferred back to the Pine Ridge Village/Campus Heights and North Campus Facilities LLC's in the event of default.

Property, Plant and Equipment

The Foundation - Property, plant and equipment are recorded at cost or fair value at the date of donation. Replacements, maintenance and repairs that do not improve or extend the lives of the assets are expensed during the period incurred. Assets are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	28-30 years
Furniture and equipment	5-10 years

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax Status

The Foundation is a public foundation and is exempt from Federal and State income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for Federal or State taxes has been made. Continued tax-exempt status is contingent on future operations being in compliance with the Internal Revenue Code.

The NACFFC is exempt from taxes under the provisions of Section 501(c)(4) of the Internal Revenue Code.

Bonds Issuance Costs

NACFFC - Issuance costs of \$1,114,894 relating to the Pine Ridge Village/Campus Heights Series 2008 Bonds are being amortized on a straight-line basis over the life of the Series 2008 Bonds. Amortization expense for the year ended June 30, 2011 was \$44,596 for issuance costs related to the Series 2008 Bonds.

Issuance costs of \$470,590 relating to the North Campus Series 2006 Bonds are being amortized on a straight-line basis over the life of the Series 2006 Bonds. Amortization expense for the year ended June 30, 2011 was \$15,686 for issuance costs related to the Series 2006 bonds.

B. ASSETS HELD BY TRUSTEE

The Foundation has an irrevocable right to receive income earned from the trusts' assets held in perpetuity. The Foundation will never receive the trusts' assets. The trust agreements are administered and related assets are invested by an individual or organization other than the Foundation. Initial recognition and subsequent adjustments to the assets' carrying value are recognized as public contributions and changes in value of perpetual trusts, respectively, and are classified as permanently restricted. Income earned is reported as increases in unrestricted, temporarily restricted or permanently restricted net assets depending on the nature of the restrictions of each trust.

NACFFC - Pursuant to the terms of the Trust Indenture, relating to the Series 2006 and 2008 Bonds, proceeds of the Series 2006 and 2008 Bonds were deposited into certain funds and accounts established with the Trustee. Assets held by Trustee consist of various reserves and operating accounts required by the Trust Indenture and totaled \$7 at June 30, 2011. These assets are invested in 100% treasury money market funds. Currently all accounts in use by the Trustee are restricted as to use.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

C. PLEDGES RECEIVABLE

Pledges receivable for the Foundation consist of the following unconditional promises to give:

Gross amounts due in:	
Less than one year	\$ 2,674,409
One to five years	4,731,254
More than five years	431,806
Gross pledges receivable	<u>7,837,469</u>
Discount to present value	(683,466)
Allowance for uncollectible pledges	(396,733)
Total pledges receivable, net	<u>\$ 6,757,270</u>

A concentration of credit risk exists with the unconditional promises to give at June 30, 2011 as approximately 72% of the gross pledges receivable balance at June 30, 2011 is from one donor.

Members of the Foundation's Board of Directors have made contributions and pledges to the Foundation in the current and prior years. At June 30, 2011, gross unconditional pledges receivable from these members total approximately \$459,000. During fiscal year 2011, the Foundation recognized contribution revenue from these donors of approximately \$79,000.

D. INVESTMENTS

The fair value and cost of the Foundation's investments at June 30, 2011 are as follows:

	Fair Value	Cost
U.S. Government/agency bonds	\$ 12,203,442	\$ 6,845,082
Corporate bond mutual funds	16,232,393	11,626,954
Equity mutual funds	42,908,311	33,077,570
International equity funds	17,546,466	15,515,570
Money market funds	1,754,914	1,754,914
	<u>\$ 90,645,526</u>	<u>\$ 68,820,090</u>

Investments include funds held for the custody of others of \$18,031,495 at June 30, 2011.

The Foundation had a realized investment gain of \$293,260 and unrealized gains on investments of \$11,039,863 for the year ended June 30, 2011. Investment expenses of \$58,851 for the year ended June 30, 2011 have been netted against investment earnings in the statement of activities.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of furniture and equipment and are reported net of accumulated depreciation. Balances as of June 30, 2011 are presented as follows:

FOUNDATION

	Cost or Donated Value	Accumulated Depreciation	Net Assets
Furniture and equipment	<u>\$ 105,719</u>	<u>\$ 87,232</u>	<u>\$ 18,487</u>

F. LEASE PURCHASE AND OTHER LEASE AGREEMENTS

NACFFC - On May 19, 2005, NAU entered into a lease purchase agreement with Pine Ridge Village /Campus Heights LLC. During the 28 year lease term, the University will make lease payments on two apartment style student housing complexes, Pine Ridge Village and McKay Village. The LLC recorded a sales-type lease receivable of \$13,225,000 in fiscal year 2005 for the Pine Ridge complex. The agreement also provided for NAU's lease purchase of the McKay Village complex for \$22,685,000 in fiscal year 2007. Upon expiration of the lease, the real property will become the sole property of NAU without further cost.

Upon renegotiation of the lease purchase agreement on May 1, 2008, base lease payments for both housing complexes are tied to the principal and fixed rate interest payments on the Series 2008 Bonds issued by the LLC. Additional rents are provided for in the lease purchase agreement to cover costs incurred by the LLC for bond related costs and professional expenses. These rents are recognized when the qualifying expense is incurred.

On September 1, 2006, NAU entered into a lease purchase agreement with North Campus Facilities LLC. During the 30 year lease term, the agreement provides for NAU's lease purchase of the convention center/ parking garage complex for \$12,400,000 in fiscal year 2008. Upon expiration of the lease, the real property will become the sole property of NAU without further cost.

Components of the net investment in the lease are as follows:

Total minimum lease payments to be received	\$ 78,859,484
Less: Unearned income	<u>(31,934,484)</u>
Net investment in sales-type lease	<u>\$ 46,925,000</u>

At June 30, 2011, minimum lease payments are as follows:

Year ended June 30,	Amount
2012	\$ 3,058,392
2013	3,094,858
2014	3,133,648
2015	3,167,720
2016	3,206,060
Thereafter	<u>63,198,806</u>
	<u>\$ 78,859,484</u>

Additional rents are provided for in the lease purchase agreement to cover costs incurred by North Campus Facilities LLC for bond related costs and professional expenses. These rents are recognized when the qualifying expense is incurred.

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

Educational broadcast system licenses - The Foundation has been granted several educational broadcast system (EBS) licenses from the Federal Communications Commission (FCC). Additionally, the Foundation entered into an agreement to purchase EBS licenses with funding from an outside corporation. Under the agreement, which is considered an exchange transaction and not a contribution under FASB ASC 958-605, the Foundation will purchase the EBS licenses and then lease the licenses to the outside corporation. In fiscal year 2008, the Foundation received approximately \$15,000,000 from the outside corporation to purchase the licenses. As of June 30, 2011, the cumulative purchased EBS licenses total \$8,810,045. There were purchases of \$2,025,000 and \$0 EBS licenses in fiscal years 2011 and 2010 respectively; however, the Foundation did receive a one time bonus of \$1,300,000. The remaining balance to be purchased, plus \$539,855 in interest earned on investments of the advanced funds, comprise the deferred revenue balance in the accompanying consolidated statement of financial position. For the year ended June 30, 2011, amortization expense of \$1,425,503 was computed using the straight line method over estimated useful lives of 4 to 10 years and accumulated amortization expense at June 30, 2011 totaled \$3,680,575.

The Foundation leases the licenses to various companies. The licenses are granted for ten-year terms, which are due to expire through February 2019. The terms of the related lease agreements correspond with the terms of the licenses. Most leases have renewal clauses, which provide for a maximum lease term of 30 years. The FCC has certain educational programming requirements. As part of the lease agreements, the lessees are responsible for ensuring that the educational requirements are met. After the educational requirements are met, there is excess frequency capacity that can be used.

The Foundation receives monthly lease payments for the use of the excess capacity. In addition to the monthly payment terms, several leases required the lessee to pay an initial fee. Total revenue received from these agreements was \$3,219,561 for the year ended June 30, 2011.

The future minimum lease payments to be received under these agreements, at June 30, 2011, are as follows:

Year ended June 30,	Amount
2012	\$ 1,273,678
2013	735,314
2014	420,770
2015	282,999
2016	201,038
Thereafter	<u>327,797</u>
	<u>\$ 3,241,596</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

G. BONDS PAYABLE

The NACFFC, through its Pine Ridge Village/Campus Heights LLC and the North Campus LLC subsidiaries, had the following bonds outstanding at June 30, 2011:

Revenue Serial and Term Bonds in the aggregate original principal amount of \$36,780,000 dated May 8, 2008; interest payable semi-annually at various interest rates ranging from 3.5% to 5%; principal payable annually in various amounts beginning June 1, 2009 through June 1, 2033; secured by property, leases and revenues including the Trust Funds, excluding the Rebate Fund, under terms of the Trust Indenture.

\$ 35,245,000

North Campus Lease Revenue Serial and Term Bonds in the aggregate original principal amount of \$12,400,000 dated September 1, 2006; interest payable semi-annually at various interest rates ranging from 4% to 5% based on terms; principal payable annually from June 1, 2009 to June 1, 2036; secured by property, leases and revenues including the Trust Funds, excluding the Rebate Fund, under the terms of the Trust Indenture.

	11,680,000
Total bonds payable	\$ 46,925,000
Unamortized bond premium/discount	(30,712)
Bonds payable, net	\$ 46,894,288
Less: current maturities	(915,000)
Bonds payable, noncurrent portion, net	\$ 45,979,288

At June 30, 2011, maturities of bonds payable are as follows:

Year ended June 30,	Amount
2012	\$ 915,000
2013	985,000
2014	1,060,000
2015	1,135,000
2016	1,220,000
Thereafter	41,610,000
	\$ 46,925,000

Interest expense related to bonds for 2011 was \$1,623,648 (Pine Ridge Village/Campus Heights LLC) and \$554,469 (North Campus), net of related discount amortization and bond premium of \$18,423 and \$14,892 respectively.

Pine Ridge Village Campus Heights (PRV/CH) -The Series 2008 Refunding Bonds maturing on or before June 1, 2018 are not subject to optional redemption prior to maturity. The Series 2008 Refunding Bonds maturing on or after June 1, 2019 are subject to optional redemption prior to maturity on any date on or after June 1, 2018, in whole or in part, in Authorized Denominations, following applicable notice, from such maturities as may be selected by PRV/CH at its option, at a redemption price (expressed as a percentage of the principal amount of the Series 2008 Refunding Bonds to be called for redemption) of 100% plus accrued interest thereon to the date of redemption. Additional bonds may be subject to optional redemption as provided in the trust agreement or related issuing document for such additional bonds.

The Series 2008 Refunding Bonds maturing on June 1, 2028 and June 1, 2033 are subject to mandatory Sinking Fund Installments prior to maturity, in Authorized Denominations, at random, as may be selected by the Bond Registrar, at a redemption price equal to the principal amount of the series 2008 Refunding Bonds to be called for redemption plus accrued interest thereon to the date of redemption but without premium, plus accrued interest as follows:

Pine Ridge Village Campus Heights

Series 2008 Refunding Bonds Bonds Due June 1, 2028

Year	Principal Amount to be Redeemed
2027	\$ 2,010,000
2028	2,155,000 (Maturity)

Series 2008 Refunding Bonds Bonds Due June 1, 2033

Year	Principal Amount to be Redeemed
2029	\$ 2,305,000
2030	2,460,000
2031	2,620,000
2032	2,780,000
2033	2,955,000 (Maturity)

NOTES TO FINANCIAL STATEMENTS

June 30, 2011

North Campus - The 2006 Bonds maturing on or before June 2016 will not be subject to optional redemption prior to maturity. The 2006 Bonds maturing on or after June 2017 will be subject to optional redemption prior to maturity on any date on or after June 2016 in whole or in part from such maturities as may be selected by the Company at its option at redemption price (expressed as percentage of the principal amount of the 2006 Bonds to be called for redemption) of 100% plus accrued interest thereon to the date of redemption.

The 2006 Bonds maturing on the following dates will be subject to mandatory sinking fund installments prior to maturity by lot as may be selected by the Trustee at redemption price equal to the principal amount of the 2006 Bonds to be called for redemption plus accrued interest thereon to the date of redemption but without premium on the following dates in the following principal amounts:

North Campus Facilities

Bonds Due June 1, 2025

Year	Principal Amount to be Redeemed
2022	\$ 395,000
2023	415,000
2024	435,000
2025	455,000 (Maturity)

Bonds Due June 1, 2031

Year	Principal Amount to be Redeemed
2026	\$ 480,000
2027	505,000
2028	530,000
2029	555,000
2030	585,000
2031	610,000 (Maturity)

Bonds Due June 1, 2036

Year	Principal Amount to be Redeemed
2032	\$ 645,000
2033	675,000
2034	710,000
2035	745,000
2036	780,000 (Maturity)

H. ASSETS HELD IN CUSTODY FOR OTHERS

The Foundation maintains certain asset balances on behalf of others, which consists of the following at June 30, 2011:

Cash	\$ 577,315
Unconditional promises to give	419
Investments	18,031,495
Beneficial interest in perpetual trust	583,947
	<u>\$ 19,193,176</u>

Assets held on behalf of:

Northern Arizona University	\$ 18,934,745
Parents' Association	258,431
	<u>\$ 19,193,176</u>

