



**NORTHERN ARIZONA
UNIVERSITY**



**FINANCIAL REPORT
2008-2009**

CONTENTS

2 Independent Auditors' Report

4 Management's Discussion and Analysis

14 Financial Statements

19 Notes to Financial Statements

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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

This report is also available online at www.nau.edu/comptroller

UNIVERSITY ADMINISTRATION As of June 30, 2009

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INDEPENDENT AUDITORS' REPORT



DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
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, 2009, 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.

2910 NORTH 44th STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051

INDEPENDENT AUDITORS' REPORT

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, 2009, 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.

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, 2009, 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 30, 2009

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, 2009. 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 fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances.
- The financial statements include a Statement of Cash Flows. This statement 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 \$39.5 million from July 1, 2008 to June 30, 2009 based on total sources of funds of \$407.8 million and \$368.3 million of uses.
- Total sources of revenues increased by \$7.4 million or 1.8 percent while total uses of funds decreased \$1.6 million.
- Student tuition and fees increased 13.0 percent from the previous year or about \$12.9 million.
- The University was granted \$23.5 million in Federal Fiscal Stabilization Funds for fiscal year 2009. The funds were recorded as an accounts receivable and were collected in fiscal year 2010.
- Due to endowment losses and the overall downward market, investment income decreased almost \$6.0 million from the previous fiscal year.
- State and capital appropriations decreased by approximately \$18.0 million from the prior year, an 11.3 percent reduction.
- The University Share of State Sales tax revenue decreased \$4.2 million from the previous year, due to the state of Arizona continued economic downturn.
- Auxiliary enterprise revenues, bolstered by increased student housing revenues, increased by \$3.1 million, or 8.7 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, 2009 and 2008 (in thousands), is as follows:

	2009	2008
Current assets	\$ 140,795	\$ 127,358
Noncurrent assets:		
Cash, cash equivalents, investments, and student loans receivable	70,476	31,469
Endowment investments	12,867	15,295
Capital assets – net of accumulated depreciation	458,426	429,963
Other noncurrent assets	399	416
Total noncurrent assets	<u>542,168</u>	<u>477,143</u>
Total assets	<u>682,963</u>	<u>604,501</u>
Long-term liabilities	<u>325,786</u>	<u>292,740</u>
Other liabilities	<u>45,207</u>	<u>39,340</u>
Total liabilities	<u>370,993</u>	<u>332,080</u>
Net assets	<u>\$ 311,970</u>	<u>\$ 272,421</u>

A review of NAU's Statement of Net Assets at June 30, 2009 and 2008 shows that the University's financial position continues to improve.

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 increased overall by \$13.4 million over the prior fiscal year. The change was the result of a net increase in receivables over decreases in current cash and investments. The increase in receivables was due to increases in student accounts receivable and the recording of state appropriations, and Federal Fiscal Stabilization Funds receivables. Decreases in current cash and investments were due to decreases in cash for operating needs and a decrease in investments as the university invested funds for longer term.

Noncurrent assets increased by approximately \$65.0 million over the prior year. The majority of the increase was due to increases in capital assets and long term investments. Capital assets, representing a majority of noncurrent assets, increased approximately \$28.5 million, net of accumulated depreciation, over the prior fiscal year as the University continued its renovations including the completion of new student housing (Aspen Crossing), the residence life warehouse, Yuma Science Lab, and other improvements to university capital facilities and

infrastructure. The changes in capital assets are discussed in more detail in the Capital Assets and Debt Administration section.

Other noncurrent assets include restricted cash and cash equivalents held by trustee, investments, student loans receivable, endowment investments and other noncurrent assets. Combined, these assets increased by a net \$36.5 million. The majority of the increase was due to an increase in long term investments of \$35.6 million and an increase in restricted cash and cash equivalents held by trustee for capital projects of \$3.6 million. These increases were offset by a decrease in endowment investments of \$2.4 million. Noncurrent investments increased as the University invested more cash for longer terms in US agency securities. The increase in restricted cash and cash equivalents was due to additional unspent bond proceeds from university debt issuances. The endowment funds decreased due to downward market adjustments.

Long-term liabilities increased by \$33.0 million as of June 30, 2009. The increase is mainly attributed to the issuance of long-term debt which is discussed further in the Capital Assets and Debt Administration section.

Other liabilities, which include accounts payable, accrued expenses, and deferred revenue, increased by \$5.9 million as of June 30, 2009. The increase is mainly attributed to increases in deferred tuition revenue due to higher enrollments and increased deferred grants revenue.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NET ASSETS

A summarized comparison of the University's net assets at June 30, 2009 and 2008 (in thousands), is as follows:

	2009	2008
Invested in capital assets, net of related debt	\$ 150,766	\$ 152,828
Restricted:		
Nonexpendable	17,504	16,494
Expendable	18,919	22,951
Unrestricted	<u>124,781</u>	<u>80,148</u>
Total net assets	<u>\$ 311,970</u>	<u>\$ 272,421</u>

Net assets at June 30, 2009 increased in total by \$39.5 million or approximately 14.5 percent from 2008. This is a result of total combined sources of \$407.8 million and total uses of \$368.3 million. The University continues to increase its revenue sources and manage operational 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, 2009 and 2008 (in thousands), is as follows:

	2009	2008, as reclassified*
Operating revenues:		
Tuition and fees, net of scholarship allowances	\$ 112,075	\$ 99,151
Grants and contracts	18,208	18,152
Auxiliary enterprises	38,967	35,854
Other	8,827	9,185
Total operating revenues	<u>178,077</u>	<u>162,342</u>
Nonoperating revenues:		
State appropriations	135,600	153,579
Share of state sales tax	12,246	16,424
Grants and contracts	52,348	53,307
Federal fiscal stabilization funds	23,492	0
Investment income	(1,192)	4,700
Other nonoperating revenues	0	545
Total nonoperating revenues	<u>222,494</u>	<u>228,555</u>
Total revenues	<u>400,571</u>	<u>390,897</u>
Operating expenses:		
Educational and general	305,357	307,994
Auxiliary enterprises	28,716	28,645
Depreciation	20,731	18,926
Total operating expenses	<u>354,804</u>	<u>355,565</u>
Nonoperating expenses:		
Interest expense on capital asset related debt	13,422	12,206
Other nonoperating expenses	117	2,209
Total expenses	<u>368,343</u>	<u>369,980</u>
Increase before capital appropriations, capital grants and gifts and endowment additions	32,228	20,917
Capital appropriations, capital grants and gifts and endowment additions	<u>7,321</u>	<u>9,547</u>
Increase in net assets	<u>\$ 39,549</u>	<u>\$ 30,464</u>

* The fiscal year 2008 amounts have been reclassified for comparison with fiscal year 2009 amounts which include private grants and contracts in the grants and contracts line instead of other.

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 auxiliary enterprises. Operating revenues (not including state appropriations) increased by \$15.7 million or 9.7 percent from fiscal year 2008. The majority of that increase is attributed to tuition and fee revenue due to higher student enrollment coupled with an increase in board approved tuition rates. Auxiliary enterprise revenues increased by \$3.1 million an 8.7 percent increase. The majority of the auxiliary revenues increase was due to residence life revenues which increased over \$2.6 million from the prior year due to additional occupancy, a new student housing facility, and a board approved rate increase. Nonoperating revenues include state appropriations, investment income, nonoperating government grants and contracts, private gifts, grants and contracts, and share of state sales tax- technology and research initiative funding (TRIF). Nonoperating revenues decreased overall by 2.7 percent. State and capital appropriations, decreased by 11.3 percent or approximately \$18.0 million as the state reduced the University's appropriations due to budget cuts. The share of state sales taxes (TRIF) revenues dropped \$4.2 million from the 2008 fiscal year due to a slowing Arizona economy and lower overall sales tax collections. Investment income resulted in a \$1.2 million loss overall as interest rates remained lower and the overall market conditions for investments, including the endowment and financial aid trust fund, lost market value. Included in nonoperating revenues is the \$23.5 million University allocation of Federal Fiscal Stabilization Funds awarded through the American Recovery and Reinvestment Act. These funds were applied for and used by the university in fiscal year 2009 for the purpose of supporting the salaries of faculty, advisors, and others providing direct services to students.

EXPENSES ANALYSIS

Educational and general expenses continued to account for a majority of the operating expenses. Educational and general expenses were relatively flat in fiscal year 2009, decreasing less than one percent or \$2.64 million. Significant changes within educational and general expenses were in academic support, a \$2.1 million decrease; operation and maintenance of plant, a \$3.0 million decrease; and scholarships and fellowships, a \$2.8 million increase. The university-wide budget reductions impact can be seen most clearly by the reduced spending in the areas of academic support and operation of maintenance of plant, \$2.1 million and \$3.0 million respectively. The scholarship and fellowship expense increase is directly linked to student enrollment growth and the impact of the economic downturn on need based financial support. Salary and benefit costs, funded by state appropriations as well as support from both local and restricted funds, grew by 2.6 percent or \$6.0 million reflecting annualized 2008 mid year salary increases. Overall, employee related expenses increased from \$56.0 million in fiscal year 2008 to \$58.0 million in fiscal year 2009, a 3.6 percent increase. The increase in employee related expenses of \$2.0 million was due mainly to increases in health insurance costs of \$1.0 million, and other employee related expense increases of \$842 thousand including retirement, employer paid FICA taxes, and graduate assistant tuition remission expenses. Reductions in operational expenses totaling \$11.4 million or 12.5% are a direct reflection of university-wide budget cuts that impacted all program areas. A majority of the budget cuts were accomplished through reductions in operational expenses and reflect a conscious university effort to meet those cuts with limited employee layoffs.

Depreciation expense increased by \$1.8 million or about 9.5 percent as the University constructed new buildings, improvements, and renovations. Depreciation expense is expected to continue to increase as the University continues to construct new buildings and renovate older ones.

Expenses - By functional classification

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2009 and 2008, is as follows:

	2009	2008
Operating:		
Instruction	\$ 127,717,088	\$ 127,072,806
Research	21,462,563	21,432,784
Public service	28,794,026	29,333,293
Academic support	27,064,158	29,185,293
Student services	28,228,123	27,835,980
Institutional support	35,789,017	36,675,800
Operation and maintenance of plant	19,658,374	22,610,377
Scholarships and fellowships	16,643,819	13,847,572
Total educational and general expenses	<u>305,357,168</u>	<u>307,993,905</u>
Auxiliary enterprises	28,715,955	28,644,848
Depreciation	20,731,251	18,925,789
Total operating expenses	<u>354,804,374</u>	<u>355,564,542</u>
Nonoperating:		
Interest and other	<u>13,538,415</u>	<u>14,415,340</u>
Total Expenses	<u>\$ 368,342,789</u>	<u>\$ 369,979,882</u>

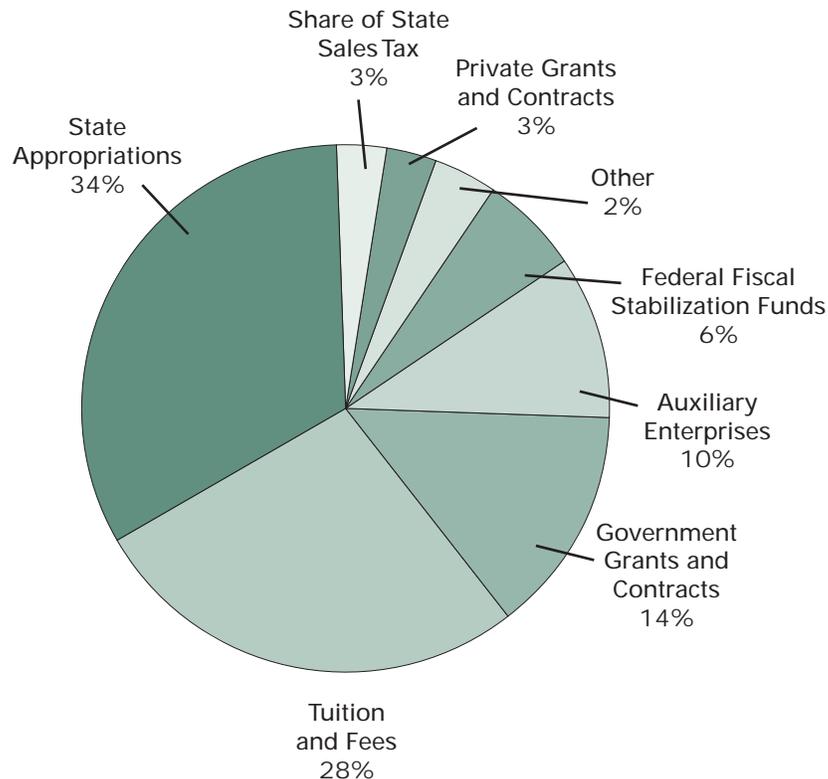
MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2009 and 2008, is as follows:

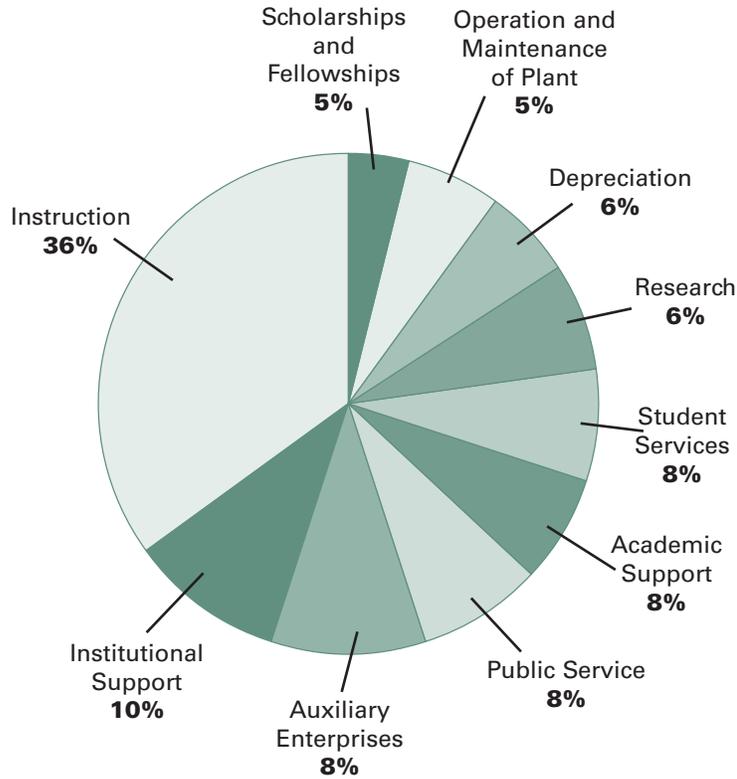
	2009	2008
Operating:		
Personal services and benefits	\$ 237,591,154	\$ 231,570,834
Operations	79,838,150	91,220,347
Scholarships	16,643,819	13,847,572
Depreciation	<u>20,731,251</u>	<u>18,925,789</u>
Total operating	<u>354,804,374</u>	<u>355,564,542</u>
Nonoperating:		
Interest and other	<u>13,538,415</u>	<u>14,415,340</u>
Total expenses	<u>\$ 368,342,789</u>	<u>\$ 369,979,882</u>

Total Revenues
Fiscal Year 2009

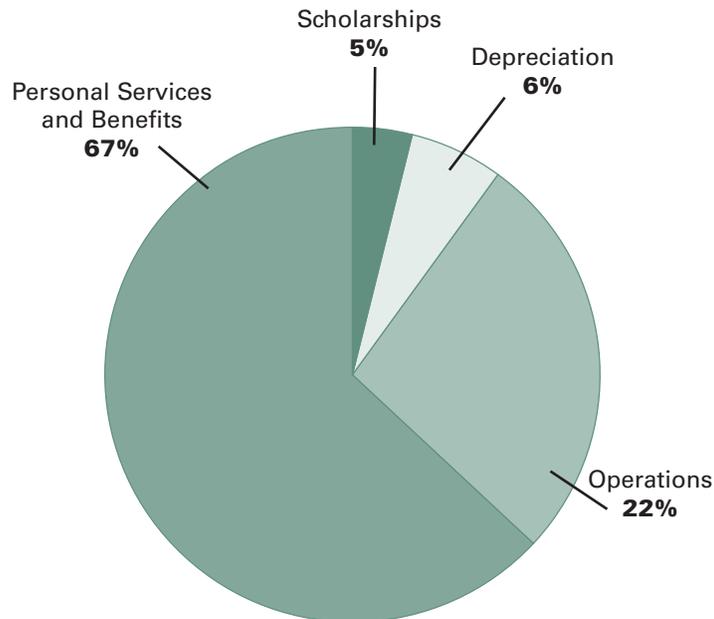


MANAGEMENT'S DISCUSSION AND ANALYSIS

Operating Expenses Functional Classifications Fiscal Year 2009



Operating Expenses Natural Classifications Fiscal Year 2009



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets at June 30, 2009

At June 30, 2009, the University had \$458.4 million invested in capital assets. During the year the University added \$49.3 million in new capital assets and retired \$2.3 million of obsolete assets. Accumulated depreciation increased by \$18.6 million. Details of capital assets at June 30, 2009 and 2008 are as follows:

	2009	2008
Land	\$ 5,597,637	\$ 5,597,637
Infrastructure	75,900,464	70,740,432
Buildings	531,506,211	474,180,147
Equipment	61,360,810	60,390,267
Library books and media	47,959,438	47,738,831
Construction in progress	29,004,858	45,601,462
Accumulated depreciation	<u>(292,902,986)</u>	<u>(274,286,051)</u>
Total capital assets	<u>\$ 458,426,432</u>	<u>\$ 429,962,725</u>

Significant capital additions completed or in progress, and the resources that funded their acquisitions for fiscal year 2009 were:

- Student dining expansion, \$1,627,799, bond proceeds
- Aspen Crossing Residence Hall, \$1,195,839, bond proceeds
- NAU Yuma science lab, \$4,018,253, certificates of participation/bonds
- South Recreation Field Expansion, \$6,017,284, bond proceeds
- Residence Life Warehouse \$2,553,569, bonds proceeds
- North physical plant chillers, \$2,369,513, bond proceeds
- Distance Learning expansion, \$9,141,914, bond proceeds
- Wellness Center Project, \$5,920,544, unrestricted net assets
- Other projects, \$13,116,723, various funding sources

Projects in progress, or planned to commence in fiscal year 2009 funded from COPS, system revenue bonds and unrestricted net assets include:

- Family Housing cable upgrade
- Skydome renovation
- Liberal Arts renovation
- Hotel Restaurant Management renovation
- North Union renovation
- Native American Center
- Wellness Center project
- Distance Learning expansion
- Recreation Fields expansion
- Infrastructure and utility extensions

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

Arizona's economy continues to suffer disproportionately. The state reported substantial, above trend line growth in the earlier part of this decade. But the loss of jobs and income due to the credit crisis and its impact throughout the economy has depressed activity. Some of the more significant economic highlights are:

Arizona is losing jobs more rapidly than the nation. From August 2008 to August 2009, Arizona lost 194,600 jobs for a decline of 7.5%. Over the same time period, the nation's jobs decline by 4.3%. Every industry in the state has suffered employment declines with the largest job losses being reported in construction (49,900), professional services (43,600) and trade (40,600). These three industries accounted for nearly 7 out of every 10 jobs lost in the state.

The loss of jobs and credit has negatively impacted state general fund collections. In FY2006, sales tax collections rose 16.7% after an 11.1% increase the year before. That was the largest over the year increase recorded in recent times. From there, sales taxes in FY2007 rose 4.3%, declined 3.5% in FY2008, declined 13.7% in FY2009 and declined 17.0% in the first three months of FY2010. In absolute dollars, Arizona collected approximately \$288 million in sales tax dollars in September 2009. The best September collection was 2006 when the state collected \$389 million, an amount that is almost 1/3 larger.

MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Outstanding Debt at June 30, 2009

At June 30, 2009, the University had \$322.2 million in outstanding bonds, certificates of participation, other long-term obligations, and capital leases, an increase of approximately \$33.3 million, or 11.5 percent from fiscal year 2008. This is due to new borrowings of \$43.1 million and principal reductions of \$9.9 million.

The table below summarizes the University's outstanding debt from fiscal years 2009 and 2008.

	2009	2008
System revenue and housing bonds	\$ 187,270,000	\$ 150,710,000
Capital leases	48,560,000	49,180,000
Certificates of participation	85,705,000	88,030,000
Other long-term obligations	<u>673,666</u>	<u>1,021,862</u>
Subtotal	<u>322,208,666</u>	<u>288,941,862</u>
Less deferred amount on refunding	(2,006,681)	(2,166,621)
Plus bonds premium	<u>5,584,283</u>	<u>5,965,108</u>
Total	<u>\$ 325,786,268</u>	<u>\$ 292,740,349</u>

A similar, though less dramatic, decline has occurred in individual income tax collections. In FY2006, individual income tax collections rose 24.1% after an even greater 28.9% increase in FY2005. In FY2007, individual income tax collections recorded a marginal increase of 1.6% with FY2008 down 9.1%, FY2009 down 24.6% and collections for the first 3 months of FY2010 down 14.1% over the 1st quarter of FY2009. In September 2007, Arizona collected \$362 million in individual income taxes. This has fallen in September 2009 to \$267 million or a loss of \$95.5 million (26.4%).

Arizona's state universities have seen their state funding follow the same trends. In FY2006, state appropriations to the universities rose by \$65.6 million (8.3%) to \$860 million. By FY2008, this figure was up to \$1.1 billion before falling to \$939 million in FY2009 and \$902 million in FY2010. This happened while enrollment at the undergraduate and graduate

levels was rising. In Fall 2009 (FY2010) the universities had total enrollment of 124,495 students, 11,404 above the Fall 2007 (FY2008) of 113,091. On a per-student basis, state funding has declined from \$9,561 to \$7,242 – a \$2,319 or 24% decline from FY2008. To help fill the funding loss to NAU and maintain the quality of education to its students, the University instituted a tuition surcharge and general tuition increases for FY 2010. These tuition increases were mitigated by the award of Federal Fiscal Stabilization Funds for FY 2009.

Since Northern Arizona University is subject to the same economic variables that affect other financial 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, 2009

SOURCES

State Appropriations 33.2%	\$ 135,600,125
Includes legislative appropriations from state of Arizona general revenue for current operations of the University and \$1,227,525 for financial aid.	
Tuition and Fees, Net of Scholarship Allowances 27.5%	\$ 112,074,712
Net of \$34,290,446 for scholarship allowances.	
Government Grants and Contracts 14.2%	\$ 58,158,440
Includes revenues of \$47,384,973 from federal grants and contracts, \$4,518,471 from state grants and contracts, and \$6,254,996 from local government grants and contracts.	
Auxiliary Enterprises 9.6%	\$ 38,967,251
Operations of substantially self-supporting activities such as student housing, student unions, and intercollegiate athletics.	
Federal Fiscal Stabilization Funds 5.8%	\$ 23,491,539
Fiscal year 2009 pass-through grant from the federal government under the American Recovery and Reinvestment Act.	
Other Sources 4.0%	\$ 16,147,864
Includes additions to permanent endowments, capital grants and gifts, capital appropriations and other operating miscellaneous revenues.	
Private Gifts, Grants, and Contracts 3.0%	\$ 12,397,889
Includes gifts, grants, and contracts for scholarships, endowments, and plant facility additions.	
Share of State Sales Tax 3.0%	\$ 12,245,921
University's share of state sales tax collections from Proposition 301.	
Investment income (0.3%)	\$ (1,192,192)
Net earnings and losses from short-term investments of funds not necessarily for immediate operational expenses and long-term investment of endowment and bond-retirement sinking funds.	
Total Sources	<u>\$ 407,891,549</u>

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, 2009

USES

Instruction and Academic Support 42%	\$ 154,781,246
Instruction, totaling \$127,717,088, 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 \$27,064,158, includes libraries, audio-visual services, and academic administration.	
Student Services and Institutional Support 17.4%	\$ 64,017,139
Student services, totaling \$28,228,122 includes areas such as admissions, registrar, minority services, counseling, placement, student aid administration, and health services. Institutional support, totaling \$35,789,017, includes executive management, financial operations, computing support, human resource services, security, and University relations.	
Research and Public Service 13.6%	\$ 50,256,590
Research, totaling \$21,462,563 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 \$28,794,027 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 7.8%	\$ 28,715,955
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.	
Depreciation 5.6%	\$ 20,731,251
Depreciation expense of capital assets over their useful lives.	
Operation and Maintenance of Plant 5.3%	\$ 19,658,374
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.	
Scholarships and Fellowships 4.6%	\$ 16,643,819
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.	
Other Uses 3.7%	\$ 13,538,415
Other uses include \$13,421,638 in interest expense on capital asset-related debt, net nonoperating expenses of \$58,014 and a \$58,763 loss on disposal of capital assets.	
Total Uses	<u>\$ 368,342,789</u>

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS June 30, 2009

ASSETS	Business-Type Activities
Current assets:	
Cash and cash equivalents	\$ 71,063,034
Investments	2,528,448
Receivables, net of allowance for uncollectibles:	
Accounts receivable	14,937,730
Accrued interest	988,543
Endowment - land sale	11,933
Government grants and contracts	10,807,249
Student loans, current portion	778,967
Federal fiscal stabilization funds receivable	23,491,539
State appropriation receivable	15,240,760
Other assets	641,627
Inventories	304,759
Total current assets	<u>\$ 140,794,589</u>
Noncurrent assets:	
Restricted cash and cash equivalents held by trustee for capital projects	\$ 19,678,653
Investments	45,973,047
Student loans receivable, net of allowance	4,824,079
Endowment investments	12,867,380
Other noncurrent assets	398,994
Capital assets, not being depreciated	34,602,495
Depreciable capital assets, net of depreciation	423,823,937
Total noncurrent assets	<u>\$ 542,168,585</u>
Total assets	<u>\$ 682,963,174</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 7,948,899
Accrued payroll and employee benefits	10,672,564
Interest payable	2,229,908
Deferred revenue	14,755,360
Accrued compensated absences	4,842,701
Deposits held in custody for others	3,472,168
Current portion of long-term debt funded by:	
University operating revenues	7,865,014
State of Arizona appropriations/share of state sales tax	2,390,000
Total current liabilities	<u>\$ 54,176,614</u>
Noncurrent liabilities:	
Deposits held in custody for others	\$ 1,285,621
Long-term debt funded by:	
University operating revenues	232,216,254
State of Arizona appropriations/share of state sales tax	83,315,000
Total noncurrent liabilities	<u>\$ 316,816,875</u>
Total liabilities	<u>\$ 370,993,489</u>
NET ASSETS	
Invested in capital assets, net of related debt	\$ 150,765,808
Restricted:	
Nonexpendable:	
Scholarships and fellowships	10,487,013
Student loans	7,017,400
Expendable:	
Scholarships and fellowships	3,375,122
Research	13,120,567
Academic department use	2,422,797
Unrestricted	124,780,978
Total net assets	<u>\$ 311,969,685</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION - Component Units June 30, 2009

	NAU FOUNDATION	NACFFC	TOTAL
ASSETS			
Cash and cash equivalents	\$ 3,771,947	\$ 10,630	\$ 3,782,577
Investments	59,646,025		59,646,025
Accounts receivable	169,956	188,190	358,146
Unconditional promises to give (net of allowance)	8,323,268		8,323,268
Assets held by trustee	4,068,762	136,844	4,205,606
Property, plant and equipment, net of depreciation	55,463		55,463
Net investment in sales-type lease		48,560,000	48,560,000
Educational broadcasting system licenses	5,558,737		5,558,737
Other assets	768,908	1,495,410	2,264,318
TOTAL ASSETS	<u>\$ 82,363,066</u>	<u>\$ 50,391,074</u>	<u>\$ 132,754,140</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 158,771	\$ 183,820	\$ 342,591
Bonds payable		48,522,226	48,522,226
Assets held in custody for others	4,987,183		4,987,183
Deferred revenue	8,734,258	22,156	8,756,414
Other liabilities	799,660		799,660
Total liabilities	<u>\$ 14,679,872</u>	<u>\$ 48,728,202</u>	<u>\$ 63,408,074</u>
NET ASSETS			
Unrestricted	\$ 15,800,696	\$ 1,662,872	\$ 17,463,568
Temporarily restricted	17,146,215		17,146,215
Permanently restricted	34,736,283		34,736,283
Total net assets	<u>\$ 67,683,194</u>	<u>\$ 1,662,872</u>	<u>\$ 69,346,066</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 82,363,066</u>	<u>\$ 50,391,074</u>	<u>\$ 132,754,140</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS For Year Ended June 30, 2009

REVENUES	Business-Type Activities
Operating Revenues	
Tuition and fees, net of scholarship allowances of \$34,290,446	\$ 112,074,712
Government grants and contracts	14,690,320
Private grants and contracts	3,517,710
Auxiliary enterprises	
Residence life, net of scholarship allowances of \$2,754,623	25,447,580
Other auxiliaries	13,519,671
Other	8,827,236
Total operating revenues	<u>\$ 178,077,229</u>
EXPENSES	
Operating Expenses	
Educational and general:	
Instruction	\$ 127,717,088
Research	21,462,563
Public service	28,794,027
Academic support	27,064,158
Student services	28,228,122
Institutional support	35,789,017
Operation and maintenance of plant	19,658,374
Scholarships and fellowships	16,643,819
Auxiliary enterprises	28,715,955
Depreciation	20,731,251
Total operating expenses	<u>\$ 354,804,374</u>
Operating loss	<u>\$ (176,727,145)</u>
NONOPERATING REVENUES AND (EXPENSES)	
State appropriations	\$ 135,600,125
Share of state sales tax - technology and research initiative funding	12,245,921
Government grants	43,468,120
Private gifts and grants	8,880,179
Federal fiscal stabilization funds	23,491,539
Net Investment income	(1,192,192)
Interest expense on capital asset related debt	(13,421,638)
Loss on disposal of capital assets	(58,763)
Other nonoperating expenses	(58,014)
Total nonoperating revenues and expenses	<u>\$ 208,955,277</u>
Income before other revenues, expenses, gains or losses	<u>\$ 32,228,132</u>
Capital appropriations	\$ 5,900,000
Capital grants and gifts	769,359
Additions to permanent endowments	<u>651,269</u>
Increase in net assets	<u>\$ 39,548,760</u>
NET ASSETS	
Total net assets, July 1, 2008	<u>\$ 272,420,925</u>
Total net assets, June 30, 2009	<u>\$ 311,969,685</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES - Component Units For Year Ended June 30, 2009

	NAU FOUNDATION	NACFFC	TOTAL
CHANGES IN UNRESTRICTED NET ASSETS			
Unrestricted support	\$ 786,859		\$ 786,859
Investment earnings	(6,406,690)	\$ 2,166,619	(4,240,071)
Licensing revenue	2,308,960		2,308,960
Rent		27,667	27,667
Capital lease revenue		113,434	113,434
Other	690,591		690,591
Total unrestricted support	<u>\$ (2,620,280)</u>	<u>\$ 2,307,720</u>	<u>\$ (312,560)</u>
Net assets released from restrictions	9,143,027		9,143,027
Total unrestricted revenues and support	<u>\$ 6,522,747</u>	<u>\$ 2,307,720</u>	<u>\$ 8,830,467</u>
Expenses:			
Scholarships	\$ 1,854,728		\$ 1,854,728
Operating	2,607,603	\$ 29,455	2,637,058
Interest		2,230,321	2,230,321
Educational purposes	2,862,394		2,862,394
Amortization and depreciation	1,226,308	60,282	1,286,590
Other	634,580		634,580
Total expenses	<u>\$ 9,185,613</u>	<u>\$ 2,320,058</u>	<u>\$ 11,505,671</u>
Decrease in unrestricted net assets	<u>\$ (2,662,866)</u>	<u>\$ (12,338)</u>	<u>\$ (2,675,204)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Public contributions	\$ 4,863,061		\$ 4,863,061
Investment earnings	(4,037,006)		(4,037,006)
Other income changes	73,921		73,921
Net assets released from restrictions	(9,143,027)		(9,143,027)
Decrease in temporarily restricted net assets	<u>\$ (8,243,051)</u>		<u>\$ (8,243,051)</u>
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Public contributions	\$ 1,018,075		\$ 1,018,075
Investment earnings	(220,202)		(220,202)
Other income changes	(73,861)		(73,861)
Increase in permanently restricted net assets	<u>\$ 724,012</u>		<u>\$ 724,012</u>
DECREASE IN NET ASSETS	<u>\$ (10,181,905)</u>	<u>\$ (12,338)</u>	<u>\$ (10,194,243)</u>
NET ASSETS, BEGINNING OF YEAR	<u>\$ 77,865,099</u>	<u>\$ 1,675,210</u>	<u>\$ 79,540,309</u>
NET ASSETS, END OF YEAR	<u>\$ 67,683,194</u>	<u>\$ 1,662,872</u>	<u>\$ 69,346,066</u>

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF CASH FLOWS For Year Ended June 30, 2009

Business-Type Activities

Cash flows from operating activities:	
Tuition and fees	\$ 109,969,637
Grants and contracts	21,235,179
Payments to suppliers and providers of goods and services	(80,935,967)
Payments to employees	(233,084,488)
Payments for scholarships and fellowships	(16,643,819)
Loans issued to students	(817,986)
Collection of loans to students	913,830
Auxiliary enterprise receipts:	
Residence halls	25,006,155
Other auxiliaries	14,221,116
Other receipts	8,662,021
Net cash used for operating activities	<u>\$ (151,474,322)</u>
Cash flows from noncapital financing activities:	
State appropriations	\$ 120,359,365
Share of state sales tax	12,245,921
Gifts and grants for other than capital purposes	52,348,300
Federal direct student lending received	116,834,743
Federal direct student lending disbursed	(116,871,496)
Funds held for others received	14,762,936
Funds held for others disbursed	(13,057,413)
Financial aid trust funds	651,269
Other payments	(58,014)
Net cash provided by noncapital financing activities	<u>\$ 187,215,611</u>
Cash flows from capital financing activities:	
Capital appropriations	\$ 5,900,000
Proceeds from issuance of capital debt	43,130,000
Proceeds from sale of capital assets	34,994
Purchases of capital assets	(49,019,356)
Principal paid on capital debt and leases	(9,863,196)
Interest paid on capital debt and leases	(13,606,019)
Net cash used for capital financing activities	<u>\$ (23,423,577)</u>
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	\$ 38,516,146
Interest on investments	(1,399,339)
Purchase of investments	(60,997,621)
Net cash used for investing activities	<u>\$ (23,880,814)</u>
Net decrease in cash and cash equivalents	\$ (11,563,102)
Cash and cash equivalents - beginning of year	102,304,789
Cash and cash equivalents - end of year	<u>\$ 90,741,687</u>
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	\$ (176,727,145)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	20,731,251
Changes in assets and liabilities - cash increase (decrease) related to:	
Receivables:	
Accounts receivable	(2,344,696)
Government grants and contracts	2,893,601
Student loans receivables and accrued interest from student loans	179,354
Inventories	(34,309)
Other assets	(335,435)
Accounts payable	(1,330,978)
Accrued payroll and employee benefits	738,943
Deferred revenue	4,632,438
Accrued compensated absences	122,654
Net cash used for operating activities	<u>\$ (151,474,322)</u>
Significant noncash transactions	
Federal fiscal stabilization funds receivable	23,491,539
State appropriation receivable	15,240,760

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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). During the year ended June 30, 2009, the University implemented the provisions of GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations and GASB Statement No. 52, Land and Other Real Estate Held as Investments by Endowments. Neither GASB Statements No. 49 nor 52 had an effect on reported amounts of revenues, expenses or net assets in Fiscal Year 2009, and required no additional note disclosures.

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, 2009, the Foundation distributed \$4.3 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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.

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, and funds invested through the State Treasurer's Local Government Investment Pool, 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, 2009, are reported less allowances for both estimated uncollectible amounts and collection costs of \$1,102,500 and \$2,936,000, respectively.

The fiscal year 2009 appropriation to Arizona Board of Regents for the support and maintenance of institutions under its jurisdiction were deferred in the amount of \$100 million to fiscal year 2010 with payment to be no later than October 1, 2009. Northern Arizona

University's portion of the deferred appropriation payment of \$15,240,760 was recorded as a receivable in fiscal year 2009.

Through the American Recovery and Reinvestment Act of 2009, the State of Arizona applied for and was awarded State Fiscal Stabilization Funds (SFSF) from the U.S. Department of Education. For fiscal year 2009, the Governor awarded Northern Arizona University \$23,491,539 in SFSF. These funds were recorded as a receivable in fiscal year 2009.

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

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	\$5,000	Straight Line	20 years
Buildings	All	Straight Line	40 years
Infrastructure	All	Straight Line	20-40 years
Land	All	None	
Equipment	5,000	Straight Line	5-15 years
Library books and media	All	Straight Line	10 years

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 has not accrued a 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 fee 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.

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.

Credit Risk

Beyond the requirements established by ABOR, the University does not have a formal policy with respect to credit risk. At June 30, 2009, credit risk for the University investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard and Poors	\$ 48,086,015
State Treasurer's investment pool	AAAF	Standard and Poors	66,730,472
Student Financial Aid Trust Fund, debt securities	unrated	N/A	2,430,985
Bond Trustee Funds:			
Government Money Market Mutual Fund	AAAm	Standard and Poors	19,678,653
Investments with NAU Foundation, debt securities	unrated	N/A	1,296,149
			<u>\$ 138,222,274</u>

ABOR investment policies require that the University invest 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 and constitute the University's investment policy.

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, 2009, cash on hand was \$17,688, the carrying amount of the University's deposits was \$3,765,676 and the bank balance was \$4,646,074. 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, 2009, \$4,396,074 of the University's bank balance was uninsured with collateral held by the pledging financial institution.

Investments	Amount
State Treasurer's investment pool	\$ 66,730,472
U.S. agency securities	48,086,015
Student Financial Aid Trust Fund	9,336,166
Bond Trustee Funds:	
Government Money Market Mutual Fund	19,678,653
Investments with NAU Foundation	4,495,892
	<u>\$ 148,327,198</u>

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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

The Student Financial Aid Trust Fund was established in accordance with A.R.S. §15-1642 for the purpose of providing aid to students with verifiable financial need. The three state universities participate in the Trust Fund, which is held with and managed by the University of Arizona in accordance with ABOR policy. The University's ownership interest is recorded in the University of Arizona's records.

Trust agreements between the University and the NAU Foundation, Inc. authorize the Foundation to invest certain University restricted and endowment monies according to the Foundation's established investment policies and procedures. The University's portion is not identified with specific investments. The University's ownership interest is recorded in the Foundation's records.

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, 2009, the University had \$48,086,015 of U.S. agency securities that were uninsured and held by the counterparty not in the University's name and \$19,678,653 of mutual funds in trustee accounts that were uninsured and held by the counterparty not in the University's name.

Concentration of Credit Risk

The University does not have a formal policy in regards to concentration of credit risk. The University places no limit on the amount that the University may invest in any one issuer. Five percent or more of the University's investments at June 30, 2009, were in Federal Home Loan Mortgage Corporation and Federal National Mortgage Association securities. These investment were 18.58 and 11.48 percent, respectively, of the University's total investments.

Interest Rate Risk

The University does not have a formal policy in regards to interest rate risk.

Investment Type	Fair Value	Maturity			
		Less Than 1 Year	1-5 Years	6-10 Years	More than 10 Years
State Treasurer's investment pool	\$ 66,730,472	\$ 66,730,472			
U.S. agency securities	48,086,015	2,497,650	\$ 45,588,365		
NAU Foundation	1,296,149	96,135	639,614	\$ 469,367	\$ 91,033
Student Financial Aid Trust Fund	2,430,985			2,430,985	
Government Money Market Mutual Fund	19,678,653	19,678,653			
Total	<u>\$ 138,222,274</u>	<u>\$ 89,002,910</u>	<u>\$ 46,227,979</u>	<u>\$ 2,900,352</u>	<u>\$ 91,033</u>

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	\$ 17,688
Cash in bank	3,765,676
Total investments	<u>148,327,198</u>
	<u>\$ 152,110,562</u>

Statement of Net Assets:

Cash and cash equivalents	\$ 71,063,034
Current investments	2,528,448
Restricted cash and cash equivalents held by trustee for capital projects	19,678,653
Noncurrent investments	45,973,047
Endowment investments	<u>12,867,380</u>
	<u>\$ 152,110,562</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Retirements	Transfers	Balance June 30, 2009
Capital assets not being depreciated:					
Land	\$ 5,597,637				\$ 5,597,637
Construction in progress	45,601,462	\$ 42,174,530	\$ 36,962	\$ (58,734,172)	29,004,858
Total capital assets not being depreciated	51,199,099	42,174,530	36,962	(58,734,172)	34,602,495
Capital assets being depreciated:					
Infrastructure	70,740,432	1,227,522		3,932,510	75,900,464
Buildings and improvements	474,180,147	2,559,386	34,984	54,801,662	531,506,211
Equipment	60,390,267	2,951,339	1,980,796		61,360,810
Library books and media	47,738,831	433,527	212,920		47,959,438
Total capital assets being depreciated	653,049,677	7,171,774	2,228,700	58,734,172	716,726,923
Less accumulated depreciation for:					
Infrastructure	25,840,396	2,191,034			28,031,430
Buildings and improvements	162,720,747	13,553,378	18,230		176,255,895
Equipment	42,925,615	3,714,268	1,883,166		44,756,717
Library books and media	42,799,293	1,272,571	212,920		43,858,944
Total accumulated depreciation	274,286,051	20,731,251	2,114,316		292,902,986
Total capital assets being depreciated, net	378,763,626	(13,559,477)	114,384	58,734,172	423,823,937
Capital assets, net	\$ 429,962,725	\$ 28,615,053	\$ 151,346	\$	\$ 458,426,432

Construction - The University had major contractual commitments related to various capital projects at June 30, 2009, including the construction of a Distance Learning Building, a Wellness Center, a Native American Center and major infrastructure upgrades. At June 30, 2009, the University had spent \$34,861,000 on these projects and had remaining contractual commitments with contractors of \$6,051,067. These projects are being financed with a combination of system revenue bonds (series 2007 & 2008) and University reserves.

Note 4—Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Due Within One Year
Long-term obligations	\$ 1,021,862		\$ 348,196	\$ 673,666	\$ 314,129
Capital leases	49,180,000		620,000	48,560,000	785,000
Certificates of participation	88,030,000		2,325,000	85,705,000	2,390,000
Revenue and housing bonds payable	150,710,000	\$ 43,130,000	6,570,000	187,270,000	6,545,000
Less deferred amount on refunding	(2,166,621)		(159,940)	(2,006,681)	(159,940)
Discounts/premiums	5,965,108		380,825	5,584,283	380,825
Total long-term liabilities	\$ 292,740,349	\$ 43,130,000	\$ 10,084,081	\$ 325,786,268	\$ 10,255,014

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

Bonds - The University's bonded debt consists of various issues of student housing and system revenue bonds that are generally callable with interest payable semiannually. 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 at June 30, 2009, are as follows:

System revenue bonds, Series 1997 - 6.5%, principal maturing serially on June 1, 2009, through 2010, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2005 system revenue bonds, Series 2006 system revenue refunding bonds, Series 2007 system revenue bonds, and the Series 2008 system revenue bonds.	\$ 2,895,000
System revenue bonds, Series 2002 - 3% to 4.875%, principal maturing serially on June 1, 2003, through 2022, secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2005 system revenue bonds, Series 2006 system revenue refunding bonds, Series 2007 system revenue bonds, and the Series 2008 system revenue bonds.	\$ 6,710,000
System revenue bonds, Series 2003 - 2.5% to 4%, principal maturing serially on June 1, 2005, through 2016, secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, Series 2002 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2005 system revenue bonds, Series 2006 system revenue refunding bonds, Series 2007 system revenue bonds, and the Series 2008 system revenue bonds.	\$ 4,860,000
System revenue and refunding bonds, Series 2004 - 3% to 5.25%, principal maturing serially on June 1, 2005, through 2034, secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2005 system revenue bonds, Series 2006 system revenue refunding bonds, Series 2007 system revenue bonds, and the Series 2008 system revenue bonds.	\$ 36,985,000
System revenue bonds, Series 2005 - 3% to 5.125%, principal maturing serially on June 1, 2005, through 2040, secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2006 system revenue and refunding bonds, Series 2007 system revenue bonds, and the Series 2008 system revenue bonds.	\$ 14,585,000
System revenue refunding bonds, Series 2006 - 4% to 5%, principal of \$20,600,000 maturing serially on June 1, 2008, through 2027, and \$21,660,000 maturing in two term bonds on June 1, 2031 and 2034, secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, the Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2005 system revenue bonds, Series 2007 system revenue bonds, and the Series 2008 system revenue bonds.	\$ 42,150,000
System revenue bonds, Series 2007 - 4.25% to 5%, principal maturing serially on June 1, 2008, through 2037, secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2005 system revenue bonds, Series 2006 system revenue refunding bonds, the Series 2008 system revenue bonds.	\$ 37,110,000
System revenue bonds, Series 2008 - 3% to 5.25%, principal maturing serially in June 1, 2009, through 2038. Secured by a first lien on certain gross revenues, on a parity with series 1997 system revenue bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, Series 2005 system revenue bonds, Series 2006 system revenue refunding bonds, and the Series 2007 system revenue bonds.	\$ <u>41,975,000</u>
	\$ <u><u>187,270,000</u></u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

The following schedule details debt service requirements to maturity for the University's bonds payable at June 30, 2009.

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2010	\$ 6,545,000	\$ 8,877,333
2011	6,810,000	8,570,305
2012	7,080,000	8,317,784
2013	7,400,000	7,998,617
2014	7,450,000	7,666,904
2015-19	33,455,000	33,060,132
2020-24	27,605,000	26,215,341
2025-29	30,920,000	19,136,674
2030-34	39,140,000	10,866,339
2035-39	20,010,000	2,628,808
2040	855,000	40,167
Total	\$ 187,270,000	\$ 133,378,404

The following schedule details debt service requirements to maturity for the University's certificates of participation payable at June 30, 2009.

Year ended June 30,	Certificates of participation	
	Principal	Interest
2010	\$ 2,390,000	\$ 3,847,206
2011	2,480,000	3,763,533
2012	2,575,000	3,666,356
2013	2,670,000	3,565,760
2014	2,780,000	3,458,106
2015-19	15,745,000	15,384,275
2020-24	19,845,000	11,181,907
2025-29	25,280,000	5,672,588
2030-31	11,940,000	399,846
Total	\$ 85,705,000	\$ 50,939,577

Bonds

On August 14, 2008, the University sold System Revenue Bonds Series 2008 for \$43,130,000 dated August 14, 2008 for the purpose of constructing a residence life warehouse, expanding the distance learning facility, expanding recreational fields, replacing the turf in the Skydome athletic facility, and various infrastructure improvements. The 2008 Bonds include \$22,310,000 of serial bonds with interest rates ranging from 3% to 5.25% and maturity dates ranging from June 1, 2009 to June 1, 2028. The 2008 Bonds also include \$20,820,000 of term bonds, with an interest rate ranging from 5.0% to 5.25% and maturing on June 1, 2033 and 2038 and are subject to annual sinking fund contributions. The bonds maturing on or after June 1, 2019, are subject to optional redemptions without premium on June 1, 2018. The 2008 Bonds were sold with net original issue discount of \$87,610. The University realized net proceeds of \$43,042,390 after payment of \$318,892 for issuance costs, underwriter discounts, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The Series 2008 System Revenue Bonds have an average interest rate of 5.04%.

In 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, 2009, \$41,130,000 of such bonds outstanding are considered defeased.

The University has pledged portions of its gross revenues towards the payment of debt related to various senior lien system revenue bonds outstanding at June 30, 2009. 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, 2009 pledged revenues totaled \$164.9 million of which 9.3% (\$15.4 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for system revenue bonds through final maturity of June 1, 2040 is \$320.6 million.

The following schedule details outstanding Certificates of Participation payable at June 30, 2009

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
2004 Research Infrastructure	\$ 37,585,000	2030	2.5% - 5.125%	\$ 35,715,000
2005 Research Infrastructure	40,255,000	2030	3.0 - 5.0%	38,180,000
2006 Research Infrastructure	12,445,000	2030	4.0 - 4.5%	11,810,000
	<u>\$ 90,285,000</u>			<u>\$ 85,705,000</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009 based on present value of lease payments

	Average Interest Rate	Final Maturity	Balance June 30, 2008	Additions	Reductions	Balance June 30, 2009	Current Portion
Pine Ridge/McKay Village	4.61%	6/1/2033	\$ 36,780,000		\$ 390,000	\$ 36,390,000	\$ 545,000
North Campus Facilities LLC	4.89%	6/1/2036	12,400,000		230,000	12,170,000	240,000
Total: Capital Leases			\$ 49,180,000		\$ 620,000	\$ 48,560,000	\$ 785,000

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

Year ended June 30,

Capital Lease Payments

2010	\$ 2,807,024
2011	3,027,169
2012	3,061,169
2013	3,097,844
2014	3,137,019
2015-19	16,246,943
2020-24	17,294,906
2025-29	18,316,100
2030-34	16,244,100
2035-36	1,640,250
Total minimum lease payments	84,872,524
Less amount representing interest	(36,312,524)
Present value of minimum lease payments	<u>\$ 48,560,000</u>

Capital Lease Assets – the book value, accumulated depreciation and net book value for capitalized leased assets as of June 30, 2009 were as follows:

Asset	Book Value	Accumulated Depreciation	Net Book Value
Pine Ridge	\$ 13,225,000	\$ (1,651,766)	\$ 11,573,234
McKay Village	\$ 22,685,000	\$ (1,699,821)	\$ 20,985,179
Conference Center	\$ 24,612,531	\$ (1,225,626)	\$ 23,386,905

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009, active plan members were required by statute to contribute at the actuarially determined rate of 9.45 percent (8.95 percent for retirement and 0.5 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 9.45 percent (7.99 percent for retirement, 0.96 percent for health insurance premium, and 0.5 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
2009	\$ 6,135,936	\$ 737,234	\$ 382,087
2008	\$ 5,939,553	\$ 774,724	\$ 368,934
2007	\$ 5,051,466	\$ 787,594	\$ 337,824

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, 2009, 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, 2009, 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, 2009, are summarized below.

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	\$ 3,206,471	\$ 3,206,471	\$ 6,412,942
VALIC	\$ 485,167	\$ 485,167	\$ 970,334
Fidelity	\$ 1,216,815	\$ 1,216,815	\$ 2,433,630

Note 6—Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in a self-insurance program administered by the State of Arizona, Department of Administration, Risk Management Division. A.R.S. §41-621 et seq. provides that losses eligible for coverage and which are not covered by insurance will be paid by the State from the self-insurance program or by a future appropriation from the State Legislature. Loss risks which are not covered by Risk Management and where the University has no insurance coverage, are losses that arise from contractual breaches and are directly attributable to an act or omission, and determined to be a felony by a court of law. With this exception, the University has no significant risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. 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, 2009

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, 2009 • Natural Classification

Functional Classification:	Personal Services and Benefits	Operations	Scholarships	Depreciation	Total
Instruction	\$ 112,234,058	\$ 15,483,030			\$ 127,717,088
Research	14,632,380	6,830,183			21,462,563
Public service	14,341,859	14,452,167			28,794,026
Academic support	23,055,994	4,008,164			27,064,158
Student services	19,722,227	8,505,896			28,228,123
Institutional support	26,284,406	9,504,611			35,789,017
Operation and maintenance of plant	8,532,817	11,125,557			19,658,374
Scholarships and fellowships			\$ 16,643,819		16,643,819
Auxiliary enterprises	18,787,413	9,928,542			28,715,955
Depreciation				\$ 20,731,251	20,731,251
Total	\$ 237,591,154	\$ 79,838,150	\$ 16,643,819	\$ 20,731,251	\$ 354,804,374

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 Statement of Financial Accounting Standards Board (FASB) No. 117, "Financial Statements of Not-for-Profit Organizations." Under FASB Statement No. 117, 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

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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.

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.

The NACFFC recognizes rent and lease income 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

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, 2009 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, 2009 was \$15,687 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 or permanently restricted net assets depending on the nature of the restrictions of each trust.

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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 \$136,843 at June 30, 2009. These assets are invested in 100% treasury money market funds. Currently all accounts in use by the Trustee are restricted as to use.

C. PLEDGES RECEIVABLE

Pledges receivable consist of the following unconditional promises to give:

Gross amounts due in:	
Less than one year	\$ 2,472,311
One to five years	5,904,943
More than five years	1,011,909
Gross pledges receivable	9,389,163
Discount to present value	(913,064)
Allowance for uncollectible pledges	(152,831)
Total pledges receivable, net	<u>\$ 8,323,268</u>

A concentration of credit risk exists with the unconditional promises to give at June 30, 2009, as approximately 79% of the gross receivable recognized during fiscal 2009 is from one donor.

At June 30, 2009, the Foundation has a restricted grant totaling \$400,000, which contained donor conditions (primarily matching fund requirements). Since the grant represents a conditional promise to give, it will not be recorded as contribution revenue until the donor conditions are met. Prior to fiscal year 2009, \$300,000 of the conditions had been met; accordingly, contributions revenue was recorded in the years the conditions were met. No contributions revenue was recorded for this grant in fiscal year 2009.

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, 2009, gross unconditional pledges receivable from these members total approximately \$4,500. During fiscal year 2009, the Foundation recognized contribution revenue from these donors of approximately \$126,000.

D. INVESTMENTS

The fair value and cost of the Foundation's investments at June 30, 2009 are as follows:

	Fair Value	Cost
U.S. Government/agency bonds	\$ 6,972,017	\$ 6,845,082
Corporate bonds	15,233,471	15,476,464
Common stock	25,038,509	33,058,545
International equity funds	11,269,549	15,462,245
Money market funds	1,132,479	1,132,479
	<u>\$ 59,646,025</u>	<u>\$ 71,974,815</u>

Investments include funds held for the custody of others of \$3,860,105 at June 30, 2009.

The Foundation had a realized investment gain of \$367,111 and unrealized losses on investments of (\$12,588,299) for the year ended June 30, 2009. Investment expenses of \$20,612 for the year ended June 30, 2009 have been netted against investment earnings in the statement of activities.

The fair value and cost of the NACFFC's investments at June 30, 2009 is as follows:

	Fair Value	Cost
Investments held by Trustee		
U.S. Treasury money market funds	\$ 136,843	\$ 136,843
	<u>\$ 136,843</u>	<u>\$ 136,843</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009 are presented as follows:

FOUNDATION

	Cost or Donated Value	Accumulated Depreciation	Net Assets
Furniture and equipment	<u>\$ 105,719</u>	<u>\$ 50,256</u>	<u>\$ 55,463</u>

F. LEASE PURCHASE AND OTHER LEASE AGREEMENTS

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	\$ 84,872,523
Less: Unearned income	<u>(36,312,523)</u>
Net investment in sales-type lease	<u>\$ 48,560,000</u>

At June 30, 2009, minimum lease payments are as follows:

Year ended June 30,	Amount
2010	\$ 2,988,454
2011	3,024,586
2012	3,058,392
2013	3,094,859
2014	3,133,648
Thereafter	<u>69,572,584</u>
	<u>\$ 84,872,523</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, 2009

Educational broadcast system licenses - The Foundation has been granted several educational broadcast system (EBS) licenses from the Federal Communications Commission (FCC). Additionally, during fiscal years 2008 and 2009, 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 SFAS No. 116, the Foundation will purchase the EBS licenses and then lease the licenses to the outside corporation. In fiscal year 2008, the Foundation received approximately \$15,378,000 from the outside corporation to purchase the licenses. As of June 30, 2009, the cumulative purchased EBS licenses total \$6,785,045. Fiscal year 2009 purchases of \$1,215,000 are included in EBS revenue in the accompanying statement of activities. The remaining balance to be purchased plus approximately \$141,000 in interest earned on investments of the advanced funds comprise the deferred revenue balance in the accompanying statement of financial position. At June 30, 2009, accumulated amortization and amortization expense of \$1,226,308 have been computed using the straight-line method over estimated useful lives of 4 to 10 years.

The Foundation leases the licenses to various companies. The licenses are granted for ten-year terms, which are due to expire through February 2018. 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 \$1,093,960 for the year ended June 30, 2009.

The future minimum lease payments to be received under these agreements, including the agreement signed subsequent to June 30, are as follows:

At June 30, 2009, minimum lease payments are as follows:

Year ended June 30,	Amount
2010	\$ 1,124,709
2011	1,166,808
2012	1,181,895
2013	697,083
2014	403,167
Thereafter	<u>1,249,449</u>
	<u>\$ 5,823,111</u>

NOTES TO FINANCIAL STATEMENTS

June 30, 2009

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, 2009:

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. \$ 36,390,000

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. 12,170,000

Total bonds payable	48,560,000
Unamortized bond premium/discount	<u>(37,774)</u>
Bonds payable, net	48,522,226
Less: current maturities	<u>(785,000)</u>
Bonds payable, noncurrent portion, net	<u>\$ 47,737,226</u>

At June 30, 2009, maturities of bonds payable are as follows:

Year ended June 30,	Amount
2010	\$ 785,000
2011	850,000
2012	915,000
2013	985,000
2014	1,060,000
Thereafter	<u>43,965,000</u>
	<u>\$ 48,560,000</u>

Interest expense related to bonds for 2009 was \$2,230,321, net of related bond premium and discount amortization of \$18,423 and \$14,892 respectively.

Pine Ridge Village Campus Heights -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, 2009

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

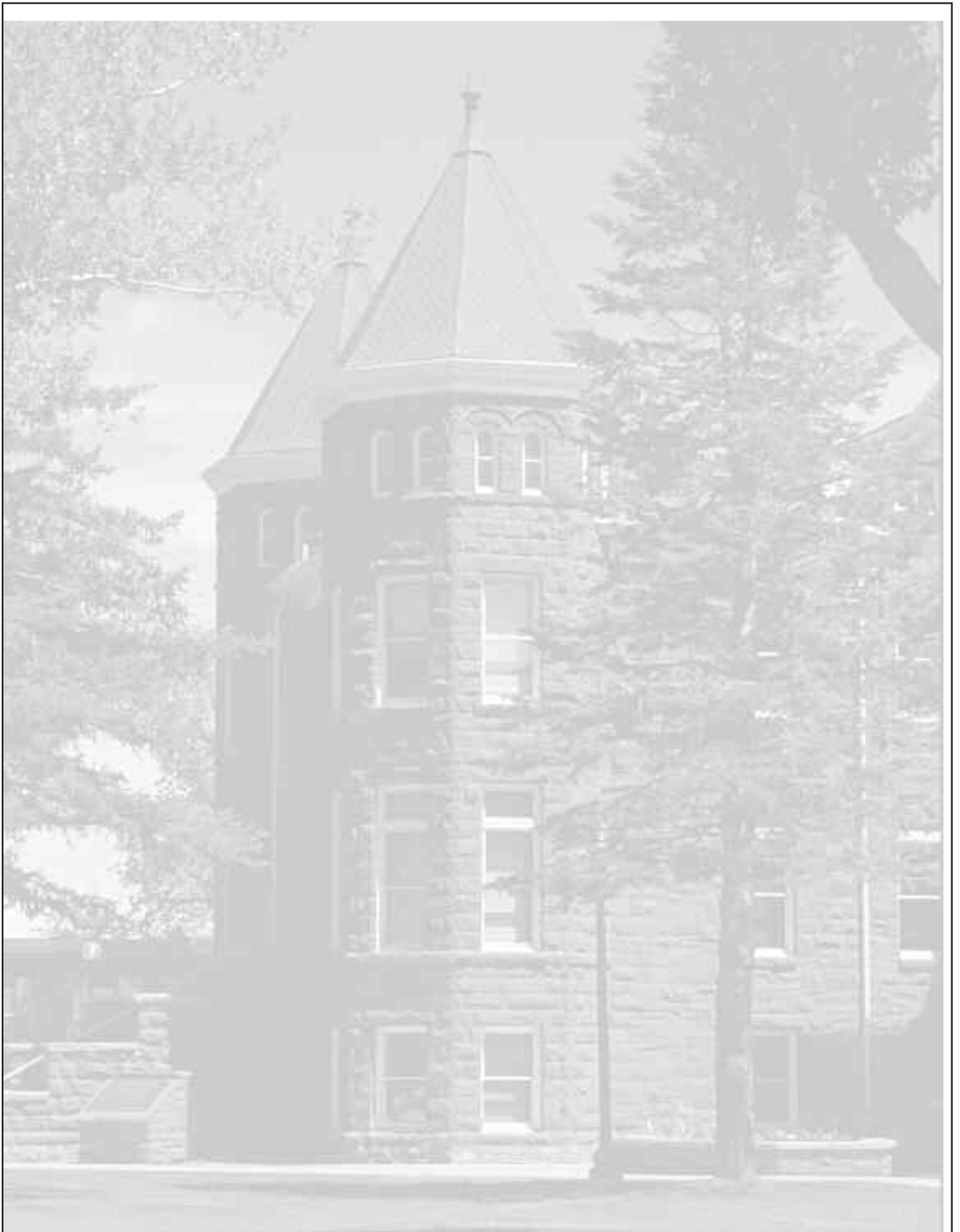
Year	Principal Amount to be Redeemed
2032	\$ 645,000
2033	675,000
2034	710,000
2035	745,000
2036	780,000 (Maturity)

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, 2009:

Cash	\$ 662,377
Unconditional promises to give	1,485
Investments	3,860,105
Beneficial interest in perpetual trust	475,244
	<u>4,999,211</u>
Less: accrued expenses	(12,028)
	<u>\$ 4,987,183</u>

Assets held on behalf of:	
Northern Arizona University	\$ 4,495,892
Parents' Association	304,380
Alumni Association	186,911
	<u>\$ 4,987,183</u>



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