

**NORTHERN ARIZONA UNIVERSITY
FOUNDATION, INC.**

FINANCIAL STATEMENTS

JUNE 30, 2003

INDEPENDENT AUDITORS' REPORT

STATEMENT OF FINANCIAL POSITION

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

STATEMENT OF CASH FLOWS

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**Guest,
Schutte
& Cospers**

Certified Public Accountants
L.L.P.

INDEPENDENT AUDITORS' REPORT

Governing Board
Northern Arizona University Foundation, Inc.
Flagstaff, AZ 86011

We have audited the accompanying statement of financial position of the Northern Arizona University Foundation, Inc. (a non-profit corporation) as of June 30, 2003 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Northern Arizona University Foundation, Inc. as of June 30, 2003 and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Guest, Schutte & Cospers

Guest, Schutte & Cospers

October 3, 2003

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2003

EXHIBIT A

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,495,267
Other receivable	2,400
Interest receivable	196,961
Unconditional promises to give	879,120
Investments, at market	35,340,077
Donated assets held for sale	379,278
Total Current Assets	40,293,103

PROPERTY & EQUIPMENT

Equipment	13,281
Less accumulated depreciation	(8,786)
Total Property & Equipment	4,495

OTHER ASSETS

Donated assets held for sale	59,094
Other receivable, long-term	11,956
Cash surrender value of life insurance	31,053
Beneficial interest in perpetual trusts	1,240,800
Unconditional promises to give	1,312,860
Total Other Assets	2,655,763

Total Assets	\$ 42,953,361
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accrued liabilities	\$ 16,452
Life annuity payable	68,954
Total Current Liabilities	85,406

LONG TERM LIABILITIES

Other trust liabilities	426,400
Life annuity payable	299,179
Total Long-term Liabilities	725,579

Total Liabilities	810,985
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NET ASSETS

Unrestricted	2,032,692
Temporarily restricted	13,414,152
Permanently restricted	26,695,532
Total Net Assets	42,142,376

Total Liabilities and Net Assets	\$ 42,953,361
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See Independent Auditors' Report and Accompanying Notes to the Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003

EXHIBIT B

	Unrestricted			Temporarily Restricted	Permanently Restricted	Total
	Unrestricted	Board- Designated	Total Unrestricted			
Support and Revenue						
Public contributions	\$ 110,747	\$ 0	\$ 110,747	\$ 2,682,551	\$ 1,362,520	\$ 4,155,818
Revenues	25,898	0	25,898	247,824	31,405	305,127
Investment earnings	317,327	0	317,327	(409,781)	8,042	(84,412)
Custodial income	0	0	0	135,062	0	135,062
Other income	0	0	0	94,494	0	94,494
Change in value of perpetual trusts	0	0	0	0	(24,321)	(24,321)
Change in value of split-interest agreements	0	0	0	15,145	0	15,145
Donor restrictions changed	(1,114)	0	(1,114)	(458,092)	459,206	0
Board designated transfers	(194,879)	194,879	0	0	0	0
Total Support and Revenue	257,979	194,879	452,858	2,307,203	1,836,852	4,596,913
Net assets released from restrictions	3,761,913	0	3,761,913	(3,761,913)	0	0
Total Support, Revenue, and Other Support	4,019,892	194,879	4,214,771	(1,454,710)	1,836,852	4,596,913
Expenses						
Program services	4,262,280	0	4,262,280	0	0	4,262,280
Supporting services	323,065	0	323,065	0	0	323,065
Other expenses	23,167	0	23,167	0	0	23,167
Total Expenses	4,608,512	0	4,608,512	0	0	4,608,512
Change in Net Assets before Other Items	(588,620)	194,879	(393,741)	(1,454,710)	1,836,852	(11,599)
Loss on Disposition of Donated Assets	0	0	0	(55,424)	0	(55,424)
Change in Net Assets before Unrealized Gain (Loss)	(588,620)	194,879	(393,741)	(1,510,134)	1,836,852	(67,023)
Unrealized Gain (Loss) on Investments	(61,024)	0	(61,024)	1,586,620	0	1,525,596
Change in Net Assets	(649,644)	194,879	(454,765)	76,486	1,836,852	1,458,573
Net Assets, Beginning of Year	1,612,266	875,191	2,487,457	13,337,666	24,858,680	40,683,803
Net Assets, End of Year	\$ 962,622	\$ 1,070,070	\$ 2,032,692	\$ 13,414,152	\$ 26,695,532	\$ 42,142,376

See independent Auditors' Report and Accompanying Notes to the Financial Statements

Guest, Schutte & Cospers
Certified Public Accountants L.L.P.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003

EXHIBIT C

Cash flows from operating activities:	
Change in net assets	\$ 1,458,573
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Reinvested investment earnings	(986,787)
Unrealized gain on investments	(1,525,596)
Realized losses	1,012,016
Donated securities	(24,187)
Unrealized loss on beneficial interest in perpetual trusts	24,320
Loss on disposition of donated assets	55,424
Amortization of annuity discount	39,501
Depreciation expense	4,065
(Increase) Decrease:	
Other receivable	2,200
Interest receivable	(28,995)
Unconditional promises to give	1,025,007
Cash surrender value of life insurance	(2,101)
Increase (Decrease):	
Accrued liabilities	(3,656)
Life annuity payable	(70,754)
Other trust liabilities	96,162
Net cash provided by operating activities	<u>1,075,192</u>
Cash flows from investing activities:	
Proceeds from sale of donated assets	26,019
Investments, net	(644,149)
Principal payments on notes receivable	69,400
Net cash used by investing activities	<u>(548,730)</u>
Net increase in cash and cash equivalents	526,462
Cash and cash equivalents at beginning of year	<u>2,968,805</u>
Cash and cash equivalents at end of year	<u>\$ 3,495,267</u>

See Independent Auditors' Report and Accompanying Notes to the Financial Statements

Guest, Schutte & Cospers
 Certified Public Accountants L.L.P.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northern Arizona University Foundation, Inc. (the Foundation) have been prepared on the accrual basis. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Nature of the Organization

The Foundation is the official not-for-profit corporation organized exclusively for the benefit of Northern Arizona University and several other units of the University system. It receives gifts and bequests, administers and invests securities and property, and disburses payments to and on behalf of the University for advancement of scientific, literary, athletic and educational purposes.

Financial Statement Presentation

The Foundation follows the Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations." Under SFAS No. 117, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Contributions and Life Annuity Gifts

The Foundation records contributions in accordance with SFAS No. 116, "Accounting for Contributions Received and Contributions Made". Under SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. In addition, SFAS No. 116 requires the recording of irrevocable split-interest agreements as gifts.

Investments

The Foundation records investments in accordance with SFAS No. 124, "Accounting for Certain Investments Held by Not-for-Profit Organizations". Under SFAS No. 124, investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Unrealized gains and losses are included in the change in net assets.

Donated Services

The Foundation records material amounts of donated services in accordance with the requirements of SFAS No. 116. The Foundation values donated services at their fair market values at the date of donation. As of June 30, 2003 the Foundation had no material donated services.

Promises to Give

Contributions are recognized when the donor makes a promise to give to Northern Arizona University Foundation, Inc. that is, in substance, unconditional. Restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

See Independent Auditors' Report

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment and Depreciation

The Foundation capitalizes any assets purchased or donated greater than \$750. Property and Equipment are stated at cost or, if donated, at the approximate fair market value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets, with equipment having useful lives ranging from 3 - 10 years.

Depreciation expense totaled \$4,065 for fiscal year 2003.

Property Held for Sale

Certain assets are received from donors by the Foundation and are held for resale. Such assets are recorded at their approximate fair market values at the date of donation.

Split-Interest Agreements

Split-interest agreements are contributions in the form of charitable gift annuities and remainder trusts which have been received from donors subject to obligations to pay stipulated amounts periodically to the donors or designated beneficiaries during their lifetimes. The assets received are recorded at the fair market value on the date of receipt. The liabilities are recorded at the present value of expected future payments made to the beneficiaries on the date of initial recognition and adjusted annually. Actuarial assumptions are based on the expected lives of the donors at the time of the donation. Assets relating to split-interest agreements amounted to \$1,287,185 at June 30, 2003.

Beneficial Perpetual Trust Agreements

Beneficial perpetual trust agreements are trust agreements that are administered by an individual or organization other than the Foundation. The Foundation has an irrevocable right to receive the income earned from the trusts' assets in perpetuity. The Foundation will never receive the trusts' assets. Beneficial perpetual trusts are recorded at the fair market value on the date of receipt as an addition to beneficial perpetual trusts and as a permanently restricted contribution. Unrealized gains and losses are recorded as changes in value of split-interest agreements. Income earned is reported as increases in unrestricted, temporarily or permanently restricted net assets depending on the nature of the restrictions of each trust.

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.

See Independent Auditors' Report

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Matters

Investments are stated at aggregate fair market value at the date of the Statement of Financial Position. Unless specific prohibitive clauses are contained in the gift instruments, funds for investments have been combined into one of nine investment pools. Investment pool income and gains and losses on the sale of investments are allocated to the various net assets based on a twelve-month average of each fund's balance related to the total average fund balances. Gains or losses on the sale of investments are determined based on the average cost of investments.

The costs of operating the Foundation have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets.

NOTE 2 - 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 and Section 43-1201 of the Arizona Revised Statutes. Therefore, the accompanying financial statements contain no provision for income taxes.

NOTE 3 - RELATED PARTY TRANSACTIONS

Northern Arizona University has provided the Foundation certain supporting services without charge. The Foundation's Manager is the Associate Director of the University Development office. The Senior Vice President for University Advancement is also the Executive Director of the Foundation. There are also certain other support services such as use of computer resources. The value of this contributed time is not reflected in the accompanying financial statements since the donated time does not meet the criteria for recognition under SFAS No. 116.

NOTE 4 - CASH AND CASH EQUIVALENTS

The following were included in cash and cash equivalents as of June 30, 2003:

Cash	\$ 23,572
Market interest accounts	1,641,579
Cash reserve account	1,270
Cash held in trust accounts	<u>1,828,846</u>
	<u>\$ 3,495,267</u>

NOTE 5 - CASH FLOW INFORMATION

The Foundation considers all short-term investments, held outside of the trusts, with an original maturity of three months or less to be cash equivalents. Reinvested investment earnings reported on the Statement of Cash Flows are net of trust fees and represent reinvested interest and dividends within the trusts. Donated securities are received directly into the trusts at market value as of the date executed.

The Foundation paid no interest in fiscal year 2003.

See Independent Auditors' Report

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 6 - FINANCIAL INSTRUMENTS

Concentrations of Credit Risk Arising from Cash Deposits in Excess of Insured Limits

The Foundation maintains cash balances in excess of FDIC insurance limits at several financial institutions located in Arizona. These cash balances can fluctuate greatly during the year. The Foundation monitors this regularly in an attempt to keep this potential risk to a minimum.

NOTE 7 - OTHER RECEIVABLE

Other receivable is comprised of an amount due from an individual who was ordered by the Coconino County Superior Court in 1997 to pay restitution to the NAU Men's Soccer Club Fund held in the Foundation. The amount of the receivable at June 30, 2003 is \$97,472. The estimated fair value of this receivable is \$14,356 at June 30, 2003 based on the discounted value of the future cash flows expected to be received based on the life expectancy of the debtor and a 8% rate which is commensurate with the risks involved.

NOTE 8 - INVESTMENTS

Under the terms of the trust agreements between the asset managers and the Foundation, the managers manage the investment assets of the Foundation. The managers have discretionary authority concerning purchases and sales of investments in the trust fund. Current value of marketable securities is the quoted market price on the last business day of the Foundation's year. Where marketable securities are not listed on an exchange, quotations are obtained from brokerage firms.

The asset managers maintain records on the cash basis, which includes the following accounting policies:

1. Income is recorded when received.
2. Security transactions are recorded on the settlement date.
3. Premiums and discounts on bonds held are not amortized.

Adjustments have been made to accrue earned income in accordance with accounting principles generally accepted in the United States of America.

The cost and market value of the Foundation's investments at June 30, 2003 is as follows:

	<u>MARKET VALUE</u>	<u>COST</u>
U.S. Gov't/Agency Bond	\$ 9,088,826	\$ 8,554,590
Corporate Bonds	5,394,696	4,926,669
Common/Preferred Stocks	18,364,002	16,181,447
International Equity Funds	2,387,827	2,904,826
Real Estate Investment Trust	104,726	125,157
	<u>\$ 35,340,077</u>	<u>\$ 32,692,689</u>

NOTE 9 - INVESTMENT EXPENSES

Expenses relating to investment revenues, including custodial fees and investment advisory fees, amounted to \$120,928 in fiscal year 2003 and have been included in supporting services expense in the accompanying Statement of Activities and Changes in Net Assets.

See Independent Auditors' Report

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 10 - PROMISES TO GIVE

Unconditional promises to give at June 30, 2003 consist of the following:

Matching gifts	\$ 24,195
Major gift pledges	2,167,785
	<u>\$ 2,191,980</u>
Amounts due in:	
Less than one year	\$ 879,120
One to five years	1,229,111
More than five years	83,749
	<u>\$ 2,191,980</u>

The discount rate for fiscal year 2003 was approximately (5.5%). No allowance for uncollectible accounts was made as management expects all promises to give to be collectible.

At June 30, 2003, the Foundation had also been notified of revocable pledges, bequests, and other indications of intentions to give. These potential contributions have not been substantiated by written promises to the Foundation. The Foundation's policy is not to record these intentions to give as revenues until they are reduced to writing or are collected.

NOTE 11 - LEASE WITH NORTHERN ARIZONA UNIVERSITY

The Foundation has entered into a lease with the Arizona Board of Regents for and on behalf of Northern Arizona University for office space, utilities, office furniture and equipment, custodial service and other such facilities for \$20.00 per square foot per year. The Foundation is currently using 378 square feet and pays this lease annually. The lease is renewable annually and cancelable with 30 days notice by either party without penalties or any other contingent rental payments. Lease expense was \$ 7,560 for fiscal year 2003.

NOTE 12 - RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for scholarships and discretionary spending. Discretionary spending net assets are gifts that were designated by the donor to be spent by a specific area or school for general needs.

Permanently restricted net assets are to provide a permanent endowment, with the investment income restricted primarily for scholarship awards. Also, included in permanently restricted net assets are endowments with investment income to support chairpersons and distinguished professors.

See Independent Auditors' Report

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2003

NOTE 13 - CHARITABLE REMAINDER UNITRUST SPLIT-INTEREST AGREEMENTS

Northern Arizona University Foundation has agreed to serve as trustee for four trusts, namely the Dr. Gina Cantoni Charitable Remainder Unitrust, the Ralph and Doris Martin Charitable Remainder Unitrust, the Robert and Bertha Forsythe Charitable Remainder Unitrust, and the newly established Arthur Bruce Crozier Charitable Remainder Unitrust. Under the terms of these split-interest agreements, the donors are to receive an annual distribution based on the fair market value of the assets in the trust. The Cantoni CRUT is an 11.5% net income trust. The Martin CRUT is a 7% net income with flip provisions trust. The Forsythe CRUT is a 6% net income with flip provisions trust. The Crozier CRUT is a 7% net income with flip provisions trust. The fair market values of these trusts as of June 30, 2003 are \$56,514, \$265,298, \$131,058, and \$251,922, respectively. The present value of the future payments to be made to the donors are estimated to be \$47,826, \$145,060, \$94,808, and \$138,707, respectively.

See Independent Auditors' Report

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