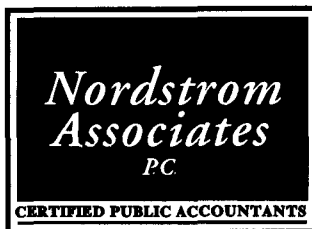


NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

FINANCIAL STATEMENTS

JUNE 30, 2004

Bruce J. Nordstrom, CPA
Godfrey C. Loper, Jr., CPA
Marjorie T. McClanahan, CPA
Timothy D. Hansen, CPA



MEMBER
American Institute of
Certified Public Accountants
Arizona Society of Certified
Public Accountants

Independent Auditors' Report

The Board of Directors
Northern Arizona University Foundation, Inc.

We have audited the accompanying statement of financial position of Northern Arizona University Foundation, Inc. as of June 30, 2004 and the related statements of activities, 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of 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 Northern Arizona University Foundation, Inc. as of June 30, 2004, 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.

Nordstrom & Associates, P.C.

September 1, 2004

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NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Statement of Financial Position

June 30, 2004

Assets

Cash and cash equivalents	\$ 1,121,348
Investments	42,061,663
Unconditional promises to give	2,256,226
Interest receivable	218,033
Other receivable	11,956
Furniture & Equipment, net of accumulated depreciation of \$10,242	3,038
Donated assets held for sale	431,839
Cash surrender value of life insurance	33,600
Beneficial interest in perpetual trusts	<u>1,309,333</u>
Total Assets	\$ <u><u>47,447,036</u></u>

Liabilities and Net Assets

Accrued liabilities	\$ 48,581
Assets held in custody for others	4,461,341
Life annuity payable	356,755
Remainder trust liabilities	<u>443,888</u>
Total Liabilities	<u>5,310,565</u>
Net assets:	
Unrestricted	5,532,962
Temporarily restricted	12,656,357
Permanently restricted	<u>23,947,152</u>
Total Net Assets	<u>42,136,471</u>
Total Liabilities and Net Assets	\$ <u><u>47,447,036</u></u>

See accompanying notes to financial statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Statement of Activities

Year ended June 30, 2004

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support and Other Revenue				
Public contributions	\$ 282,845	3,811,473	576,254	4,670,572
Revenue	205,358	-	-	205,358
Investment earnings	3,836,880	624,776	10,746	4,472,402
Other income	82,200	-	-	82,200
Change in value of perpetual trusts	-	-	68,534	68,534
Change in value of split-interest agreements	-	37,533	-	37,533
Donor restrictions changed	(4,027)	(328,152)	332,179	-
Net assets released from restrictions	3,968,154	(3,968,154)	-	-
Total Support and Other Revenue	8,371,410	177,476	987,713	9,536,599
Expenses and Losses:				
Program expenses:				
Scholarships	985,533	-	-	985,533
Facilities	212,340	-	-	212,340
Disbursements for Educational Purposes	272,908	-	-	272,908
Other University Programs	2,628,708	-	-	2,628,708
Total program expenses	4,099,489	-	-	4,099,489
Supporting services:				
Fundraising	354,038	-	-	354,038
Management and General	268,781	-	-	268,781
Total supporting services	622,819	-	-	622,819
Total Expenses	4,722,308	-	-	4,722,308
Unrealized losses on investments	360,096	37,567	849	398,512
Loss on impairment of assets	38,533	-	-	38,533
Total Expenses and Losses	5,120,937	37,567	849	5,159,353
Increase in net assets	3,250,473	139,909	986,864	4,377,246
Net assets, beginning of year	2,032,692	13,414,152	26,695,532	42,142,376
Prior period adjustment	249,797	(897,704)	(3,735,244)	(4,383,151)
Net assets, beginning of year, as restated	2,282,489	12,516,448	22,960,288	37,759,225
Net assets, end of year	\$ <u>5,532,962</u>	<u>12,656,357</u>	<u>23,947,152</u>	<u>42,136,471</u>

See accompanying notes to financial statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Statement of Cash Flows

Year ended June 30, 2004

Cash flow from operating activities:	
Increase in net assets	\$ 4,377,246
Adjustments to reconcile increase in net assets to net cash used in operating activities:	
Prior period adjustment	(4,383,151)
Unrealized losses on investments	398,512
Realized gains	(3,406,455)
Donated securities	(234,168)
Change in value of perpetual trusts	(68,534)
Change in value of split-interest agreements	(37,533)
Loss on impairment of assets	38,533
Depreciation	1,457
Contributions and net investment income restricted for long-term investment	(587,000)
Contributions restricted for capital acquisition and construction	(919,987)
Increase (decrease) in cash resulting from changes in:	
Interest receivable	(21,072)
Other receivable	2,400
Unconditional promises to give	(64,246)
Cash surrender value of life insurance	(2,547)
Accrued liabilities	32,129
Assets held in custody for others	4,461,341
Net cash used in operating activities	<u>(413,075)</u>
Cash flows from investing activities:	
Proceeds from sales of investments	10,300,000
Purchases of investments	<u>(13,811,475)</u>
Net cash used in investing activities	<u>(3,511,475)</u>
Cash flows from financing activities:	
Change in life annuities and remainder trusts	43,644
Proceeds from contributions and investment income restricted for long-term investment	587,000
Proceeds from contributions restricted for capital acquisition and construction	919,987
Net cash provided by financing activities	<u>1,550,631</u>
Decrease in cash and cash equivalents	<u>(2,373,919)</u>
Cash and cash equivalents, beginning of year	<u>3,495,267</u>
Cash and cash equivalents, end of year	<u>\$ 1,121,348</u>

See accompanying notes to financial statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(1) **Organization**

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

(2) **Summary of Significant Accounting Principles**

(a) **Basis of Presentation**

The Foundation maintains its accounts on the accrual basis of accounting. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met by actions of the Organization and/or the passage of time.

Unrestricted net assets – Net assets not subject to donor-imposed stipulations.

Revenues are reported as increase in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions of net assets, i.e. the donor-stipulated purpose has been filled and/or the stipulated time period has lapsed, are reported as reclassifications between the applicable net asset classes.

(b) **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 may differ from these estimates.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(c) **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.

(d) **Investments**

Investments, consisting primarily of equity securities, US government securities, and corporate bonds, with readily determinable market values are measured at fair value as of year-end in the financial statements. 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.

(e) **Contributions**

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.

(f) **Furniture and Equipment**

Furniture and equipment are stated at cost or fair value at the date of donation and are depreciated using the straight-line method over the assets useful lives, which range from 5-10 years. Depreciation expense totaled \$1,456 for the year ended June 30, 2004

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(g) Donated Assets Held for Sale

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

(h) Split-Interest Agreements

The Foundation's split-interest agreements with donors consist of charitable gift annuities and irrevocable charitable remainder trusts for which the Foundation serves as trustee. Assets are invested and payments are made to donors and/or other beneficiaries in accordance with the respective agreements.

Contribution revenue for charitable gift annuities and charitable remainder trusts is recognized at the date the agreement is established, net of the liability recorded for the present value of the estimated future payments to be made to the respective donors and/or other beneficiaries.

The present value of payments to beneficiaries of charitable gift annuities and charitable remainder trusts are calculated using discount rates which represent the risk-free rates in existence at the date of the gift. Gains or losses resulting from changes in actuarial assumptions and accretions of the discount are recorded as increase or decreases in the respective net asset class in the statement of activities.

Assets relating to split-interest agreements totaled \$1,330,828 at June 30, 2004.

(i) Beneficial Interest in Perpetual Trusts

Beneficial interest in perpetual trusts represents the Foundations irrevocable right to receive the income earned from the trusts' assets 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.

(j) Income Taxes

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.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(3) **Restatement of Net Assets**

During fiscal year 2004, the Foundation determined that there were certain balances included in net assets that either shouldn't have been recorded as Foundation net assets or the net asset classification of the balances was incorrect. The adjustment to the beginning of the year net asset balances is comprised of the following balances:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Assets held in custody for others	\$ -	\$ (628,788)	\$ (3,754,363)
Net assets requiring reclassification in order to comply with donor restrictions	120,521	(139,640)	19,119
Net assets recorded with a temporary restriction in error	<u>129,276</u>	<u>(129,276)</u>	<u>-</u>
	<u>\$ 249,797</u>	<u>\$ (897,704)</u>	<u>\$ (3,735,244)</u>

(4) **Other Receivable**

The other receivable balance 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, 2004 is \$95,072. The estimated fair value of this receivable is \$11,956 at June 30, 2004 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.

(5) **Unconditional Promises to Give**

Promises to give, net of discount to present value (at rates ranging from 1.0% to 6.2%) and allowance for doubtful accounts, are due to be collected as follows:

Gross amounts due in:	
Less than one year	\$ 980,846
One to five years	<u>1,429,327</u>
	2,410,173
Less discount to present value	<u>(109,536)</u>
	2,300,637
Less allowance for doubtful accounts	<u>(44,411)</u>
Total	<u>\$ 2,256,226</u>

The discount will be recognized as contribution income in fiscal years 2005 through 2010 as the discount is amortized using an effective yield over the duration of the pledge.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(6) Investments

The cost and market value of the Foundation's investments at June 30, 2004 is as follows:

	<u>Market Value</u>	<u>Cost</u>
U.S. Government/agency bonds	\$ 9,537,912	\$ 9,654,294
Corporate bonds	5,969,999	5,809,238
Common stock	22,535,869	20,330,543
International equity funds	3,973,832	3,901,895
Real estate investment trust	44,051	40,682
	<u>\$ 42,061,663</u>	<u>\$ 39,736,652</u>

Investments include funds held for the custody of others of \$4,252,247 at June 30, 2004.

The realized gains and unrealized losses on investments were \$3,406,455 and \$(398,512) for the year ended June 30, 2004. Investment expenses of \$124,362 for the year ended June 30, 2004 have been netted against investment earnings in the statement of activities.

(7) Endowment Payout

The Foundation's policy governing the amount of investment earnings allocated to endowment funds is designed to protect the real value of endowment principal for future generations and offset the inflationary erosion of the principal. The objective of the earnings allocation policy is to provide the University endowed scholarships and programs with spendable income that is reasonably stable and predictable from year to year. The allocation rate, set annually by the Board of Directors, is based on a three-year rolling average. For the year ended June 30, 2004, the Board approved a 2% allocation of investment earnings.

(8) Assets Held in Custody for Others

The Foundation maintains certain asset balances on behalf of others, which consists of the following at June 30, 2004:

Cash	\$ 201,540
Unconditional promises to give	7,554
Investments	<u>4,252,247</u>
	<u>\$ 4,461,341</u>
Assets held on behalf of:	
Northern Arizona University	\$ 4,097,670
Parents' Association	171,756
Alumni Association	<u>191,915</u>
	<u>\$ 4,461,341</u>

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(9) Leases

Office Space

The Foundation has entered into a lease with the Arizona Board of Regents for and on behalf of the 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 other contingent rental payments. Lease expense was \$7,560 for the year ended June 30, 2004.

Instructional Television Fixed Service Licenses

The Foundation has been granted several instructional television fixed service licenses from the Federal Communications Commission (FCC). The Foundation then leases the licenses to various companies. The licenses are granted for ten-year terms and the related lease agreements are also usually signed for the same ten-year terms, which expire through April 2006.

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. The monthly lease payments received is generally a function of the number of subscribers of the lessee. However, the agreements also specify minimum monthly rentals ranging from \$750 per month to \$2,000 per month. For the year ended June 30, 2004, the Foundation received \$82,200 in revenue from these lease agreements.

The future minimum lease payments to be received under these agreements are as follows:

Fiscal years ended June 30:	
2005	\$ 30,000
2006	4,000
	<hr/>
	\$ 34,000
	<hr/>

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

Notes to Financial Statements

June 30, 2004

(10) Restricted Net Assets

Temporarily restricted net assets are primarily 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 restricted to investment in perpetuity, with the investment income restricted primarily for scholarship awards, faculty support, and other programmatic uses.

(11) Retirement Plan

The Foundation employees participate in the retirement plans sponsored by the University. Two of the Foundation employees participate in the Arizona State Retirement System and contribute 5.7% of their salary. The other Foundation employees participate in a defined contribution plan and contribute 7% of their salary. Participation in a retirement plan is required of all employees who are scheduled to work 20 hours or more per week. The Foundation matches the employees' contributions to the plans. For the year ended June 30, 2004, the Foundation's contribution expense was \$11,389.

(12) Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents. The Organization places its cash and cash equivalents with high credit quality financial institutions and generally limits the amount of credit exposure to the amount in excess of the FDIC insurance coverage limit of \$100,000.

(13) Related Party Transactions

The Foundation rents office space and equipment from the University. See additional discussion of agreement in note 9.

The Foundation utilizes a publishing company owned by a board member to produce the Pine magazine. The total amount paid to this company during the year ended June 30, 2004 was \$201,196.