

**NORTHERN ARIZONA
UNIVERSITY FOUNDATION, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2008

**NORTHERN ARIZONA
UNIVERSITY FOUNDATION, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

NORTHERN ARIZONA UNIVERSITY FOUNDATION

We have audited the accompanying statement of financial position of ***Northern Arizona University Foundation, Inc.*** at June 30, 2008, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of ***Northern Arizona University Foundation, Inc.'s*** management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the 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.*** at June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Phoenix, Arizona
October 20, 2008

Mayer Hoffman McCann P.C.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2008

ASSETS

CASH AND CASH EQUIVALENTS	\$ 36,632
PLEDGES RECEIVABLE, net	9,474,471
INTEREST RECEIVABLE	160,006
BEQUESTS RECEIVABLE	1,154,233
OTHER RECEIVABLES	84,539
PREPAID EXPENSES	5,985
INVESTMENTS	72,157,493
FURNITURE AND EQUIPMENT, net	73,950
EBS LICENSES	5,570,040
COLLECTIONS	284,500
DONATED ASSETS HELD FOR SALE	171,046
ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS	1,828,649
CASH SURRENDER VALUE OF LIFE INSURANCE	302,298
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>3,355,177</u>
TOTAL ASSETS	<u>\$ 94,659,019</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 175,681
ASSETS HELD IN CUSTODY FOR OTHERS	5,845,246
DEFERRED REVENUE	9,808,120
OBLIGATIONS UNDER SPLIT INTEREST AGREEMENTS	<u>964,873</u>
TOTAL LIABILITIES	<u>16,793,920</u>
NET ASSETS	
Unrestricted	18,463,562
Temporarily restricted	22,845,395
Permanently restricted	<u>36,556,142</u>
TOTAL NET ASSETS	<u>77,865,099</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 94,659,019</u>

See Notes to Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Public contributions	\$ 425,782	\$ 6,631,167	\$ 4,166,734	\$ 11,223,683
EBS revenue (Note 7)	6,335,005	-	-	6,335,005
Investment losses (Note 3)	(208,549)	(970,649)	(2,046,736)	(3,225,934)
Change in cash surrender value of life insurance	261,373	-	-	261,373
Gain on sale of assets held for sale	-	-	84,426	84,426
Loss on impairment of assets held for sale	(15,500)	-	-	(15,500)
Other income	462,863	-	-	462,863
Reclassification of donor intent	-	(158,766)	158,766	-
Net assets released from restrictions	7,681,421	(7,681,421)	-	-
TOTAL SUPPORT AND REVENUES	14,942,395	(2,179,669)	2,363,190	15,125,916
EXPENSES				
Program expenses:				
Disbursements for educational purposes	2,094,504	-	-	2,094,504
Scholarships	1,446,309	-	-	1,446,309
Facilities	707,977	-	-	707,977
Grants and research	380,134	-	-	380,134
Other University programs	688,932	-	-	688,932
Total program expenses	5,317,856	-	-	5,317,856
Supporting services:				
Fundraising	2,889,520	-	-	2,889,520
Management and general	408,365	-	-	408,365
Total supporting services	3,297,885	-	-	3,297,885
TOTAL EXPENSES	8,615,741	-	-	8,615,741
CHANGE IN NET ASSETS	6,326,654	(2,179,669)	2,363,190	6,510,175
NET ASSETS, BEGINNING OF YEAR	12,136,908	25,025,064	34,192,952	71,354,924
NET ASSETS, END OF YEAR	\$ 18,463,562	\$ 22,845,395	\$ 36,556,142	\$ 77,865,099

See Notes to Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

Cash flow from operating activities:	
Change in net assets	\$ 6,510,175
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Change in present value of discount on pledges receivable	(897,175)
Change in allowance for uncollectible pledges	51,147
Net unrealized and realized losses on investments	5,020,812
Donated securities	(453,646)
Donated assets held for sale	(121,155)
Gain on sale of assets held for sale	(84,426)
Impairment loss on assets held for sale	15,500
Change in value of beneficial interest in perpetual trusts	365,764
Change in value of split-interest agreements	(41,157)
Depreciation	18,946
Increase (decrease) in:	
Pledges receivable	3,218,843
Interest receivable	85,531
Bequests receivable	(1,154,233)
Other receivables	(27,039)
Prepaid expenses	(5,985)
Decrease (increase) in:	
Accounts payable and accrued liabilities	(12,385)
Deferred revenue	9,808,120
Net cash provided by operating activities	<u>22,297,637</u>
Cash flows from investing activities:	
Purchases of investments	(51,877,754)
Purchases of EBS licenses	(5,570,040)
Purchases of furniture and equipment	(5,231)
Proceeds from sales of investments	31,824,081
Proceeds from sales of donated assets held for sale	453,209
Change in cash surrender value of life insurance	(261,373)
Change in assets held in custody for others	(170,221)
Net cash used in investing activities	<u>(25,607,329)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	(3,309,692)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>3,346,324</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 36,632</u></u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Donated investment securities	<u>\$ 453,646</u>
Donated assets held for sale	<u>\$ 121,155</u>
Change in cash surrender value of life insurance	<u>\$ 261,373</u>

See Notes to Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(1) Foundation operations and summary of significant accounting policies

Foundation operations - 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.

The significant accounting policies followed by the Foundation are summarized below:

Basis of presentation – The financial statements are presented in accordance with 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.

Management's use of estimates – The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

Cash and cash equivalents – For purposes of reporting cash flows, cash and cash equivalents include liquid accounts with original maturities of three months or less that are not designated for investment purposes. Investments carried at market value include certain liquid accounts which are generally not used in operations. Deposits in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) of \$100,000 are exposed to loss in the event of nonperformance by the financial institution. Cash and investment balances totaling \$18,303,259 at June 30, 2008 contain donor imposed restrictions limiting the use of the cash and investments for specified purposes.

Pledges receivable – Unconditional promises to give (pledges) are recognized as an asset and contribution revenue in the period the promise is received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges receivable are recorded at their net realizable value, which is net of a discount and loss allowance. Pledges are discounted using the applicable risk free rate at the date the pledge was recognized. The discount rates range from 1.0% to 6.2%. An allowance for uncollectible pledges is estimated based on the Foundation's collection history and is recorded as a charge to the valuation allowance and a credit to pledges receivable during the fiscal year when the allowance is determined necessary.

Bequests receivable – Bequests receivable are recognized as contribution revenue in the period the Foundation receives notification the court has found the will of the donor's estate to be valid and all conditions have been substantially met. Bequests receivable are stated at the amount management expects to collect. Management provides for probable uncollectible amounts through a charge to earnings and a credit to the allowance for uncollectible bequests receivable based on its assessment of the current status of individual balances. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible bequests receivable and a credit to bequests receivable. At June 30, 2008, bequests receivables are considered by management to be fully collectible and, accordingly, an allowance for uncollectible bequests receivable has not been provided.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(1) Foundation operations and summary of significant accounting policies (continued)

Contributions – Contributions are recorded in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed assets and services – Donations of securities, land, buildings and other non-monetary assets which can be objectively measured are recorded at their fair value at the date of contribution. Donated assets are held until they can be sold. Included in these assets are timeshares, land, and miscellaneous other assets. Certain real estate and other non-monetary assets such as art objects, equipment and books that were donor designated for direct use by the University or one of its departments are not included in these financial statements. Assets that cannot be objectively measured are not included in these financial statements. Donated services of volunteers have not been recorded in the accompanying financial statements since they do not meet the recognition criteria established in SFAS No. 116.

Collections - The collections of the Foundation consist of donated statues and other works of art on display at the University. These art objects were contributed to the Foundation and were recorded at their fair value at the date of contribution.

Revenue recognition – Revenue from exchange transactions, investment activities, management fees, other fees and charges, and other non-contribution related revenue are recognized as earned. Revenue received in advance is recorded as deferred revenue in the accompanying statement of financial position.

Investments – Investments are recorded in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Investments in equity and debt securities that have readily determinable fair values are recorded at quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets and financial reports.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the near term could materially affect account balances and the amounts reported in the accompanying financial statements.

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.

The Foundation investment policy is approved by the Investment Committee of the Foundation's Board of Directors. The spending policy defines the calculation of the amount made available for spending from the endowment pools which is based on a three year rolling average.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(1) Foundation operations and summary of significant accounting policies (continued)

Split interest agreements – The Foundation is trustee for two types of split interest agreements.

- a. *Charitable remainder trusts* – Charitable remainder trusts consist of assets donated to the Foundation and held by the Foundation with the Foundation as the sole or one of the remaindermen of the trusts. The Foundation assets held in trust are determined by multiplying the Foundation remainder interest in each trust by the fair value of the assets held in each trust. Earnings from the investment of each trust corpus and the trust corpus are used to pay certain periodic payments to beneficiaries under the terms of each trust agreement. The corpus of each trust may be invaded in cases where investment earnings are not sufficient to make the required periodic payments. If the corpus of the trust is invaded to the extent that it is depleted, the Foundation has no further financial obligation to the applicable donors, beneficiaries or other remaindermen, if any. Upon the death of the applicable beneficiaries, any remaining corpus of the trust reverts to the Foundation or the other charitable remaindermen, if any, as specified in each trust agreement. A corresponding Foundation liability, based upon actuarial tables, is also recorded to reflect the present value of the future periodic payments to be made to the beneficiaries.
- b. *Charitable gift annuities* – The Foundation receives funds from various contributors through gift annuity agreements, under which the Foundation is obligated to pay annuitants periodic fixed amounts for the remainder of their lives. The Foundation has invested the funds in investments that 1) provide interest and dividend income, as well as market gain or loss, and 2) are used to meet the required payments. A corresponding Foundation liability, based upon actuarial tables, is also recorded to reflect the present value of the future periodic payments to be made to the beneficiaries. Contribution support is recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. The original contribution and the investment earnings may not be sufficient to make the required periodic payments. If these amounts are not sufficient, the Foundation has a continuing financial commitment to each annuitant until their death. At June 30, 2008, these amounts were sufficient to make planned payments to annuitants.

Cash surrender value of life insurance policies - The Foundation is the owner and beneficiary of sixteen life insurance policies covering the lives of certain donors to the Foundation. The face amounts of the policies total approximately \$20.2 million. The policies are recorded at their cash surrender value of approximately \$302,000 at June 30, 2008. Policy earnings and expenses are included in the accompanying statements of activities.

Beneficial interest in perpetual trusts – Beneficial interest in perpetual trusts represents the Foundation's 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 based on quoted market prices 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.

Furniture and equipment and related depreciation and amortization – Purchased furniture and equipment are recorded at cost. Donated furniture and equipment are recorded at the fair value at date of donation to the Foundation. Betterments or renewals in excess of \$5,000 are capitalized. Depreciation and amortization is computed using the straight-line method over the following estimated useful lives of the assets.

	<u>Estimated Useful Lives</u>
Office equipment and computer software	5-10 years

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

1) Foundation operations and summary of significant accounting policies (continued)

Impairment of long-lived assets – The Foundation accounts for long-lived assets in accordance with the provision of SFAS No. 144, *Accounting for the Impairment of Long-Lives Assets*. SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. In fiscal year 2008, the Foundation recorded a \$15,500 impairment on certain donated assets held for sale based on recent valuations.

Net assets – Net assets and changes therein are classified and reported as follows:

- a. *Unrestricted net assets* - Includes unrestricted amounts associated with the operating activities of the Foundation. Certain unrestricted net assets have been designated as quasi-endowments by the Board of Directors of the Foundation.
- b. *Temporarily restricted net assets* - Includes amounts for which donor-imposed restrictions have not been met. Donor-restricted contributions for which restrictions are met within the same fiscal year as they are received are reported as temporarily restricted net assets. Expenditures that fulfill the temporary restriction are shown as expenses in unrestricted net assets and a reduction in temporarily restricted revenue as a release from restriction.
- c. *Permanently restricted net assets* - Includes amounts for which the donor-imposed restrictions state that the corpus is to be invested in perpetuity with the income to be made available for specified programs or uses.

With the exception of certain permanently restricted contributions that the donor requires to be separately invested, all permanently restricted contributions are consolidated in an investment pool. Appreciation, depreciation, income and expense relative to the pooled endowment investments are allocated to each endowment based upon the ratio of that endowment's investment balance to the total investment pool and are shown as a change in temporarily restricted net assets.

Functional expense allocation – Expenses are charged to program services and supporting services categories based on direct expenditures incurred. Any expenditure not directly chargeable to a functional expense category is allocated based on appropriate allocation methods.

Reclassification of donor intent – At times the Foundation receives requests by donors or their designees to change the use for which the donor's original gift was intended. These donor requests are reviewed by the Foundation for approval, and if approved, may result in the reclassification of net assets between unrestricted, temporarily restricted, or permanently restricted net assets. These reclassifications are reflected in the statement of activities for the year ended June 30, 2008 as reclassification of donor intent.

Income tax status - The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) as described in Sections 509(a)(1) and 170(b)(1)(A)(iv) of the Internal Revenue Code (the "Code") and, accordingly, there is no provision for income taxes. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

1) Foundation operations and summary of significant accounting policies (continued)

Recently issued accounting standards – In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time, the Foundation has not yet evaluated the impact of adopting this standard.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities* – including an amendment of FASB Statement No. 115. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 defines the financial instruments that can be measured using the fair value option. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time the Foundation has not yet evaluated the impact of adopting this standard.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Arizona enacted a version of UPMIFA in June 2008 that will be in effect for the Foundation's fiscal year 2009. The administration of the Foundation will need to interpret the relevant law. FSP 117-1 also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The disclosure requirements of FSP 117-1 will be effective for the Foundation in fiscal year 2009.

(2) Pledges receivable

Pledges receivable consist of the following unconditional promises to give:

Gross amounts due in:	
Less than one year	\$ 2,385,017
One to five years	6,501,415
More than five years	<u>2,017,300</u>
Gross pledges receivable	10,903,732
Discount to present value	(1,276,430)
Allowance for uncollectible pledges	<u>(152,831)</u>
Total pledges receivable, net	<u>\$ 9,474,471</u>

A concentration of credit risk exists with the unconditional promises to give at June 30, 2008, as approximately 73% of the gross receivable and 36% of public contributions recognized during fiscal 2008 is from one donor.

At June 30, 2008, 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. During fiscal year 2008, some of the conditions on the grant were met and the Foundation recorded contribution revenue of \$100,000. Prior to fiscal year 2008, \$200,000 of the conditions had been met; accordingly, contributions revenue was recorded in the years the conditions were met.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(2) Pledges receivable (continued)

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, 2008, gross unconditional pledges receivable from these members total approximately \$196,000. During fiscal year 2008, the Foundation recognized contribution revenue from these donors of approximately \$159,000.

(3) Investments

The cost and market value of the Foundation's investments at June 30, 2008 are as follows:

	Market Value	Cost
U.S. Government/agency bonds	\$ 14,804,325	\$ 14,603,933
Corporate bonds	9,207,084	9,202,070
Common stock	20,755,776	20,456,555
International equity funds	8,523,543	8,526,021
Money market funds	18,866,765	18,862,636
Real estate investment trust	-	58
	\$ 72,157,493	\$ 71,651,273

Investments include funds held for the custody of others of \$5,034,694 at June 30, 2008. The Foundation has recorded a custodial liability for these investments.

Expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$115,515 and have been netted against investment earnings in the accompanying statement of activities.

Investment return (loss) at June 30, 2008 consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 73,265	\$ 786,091	\$ 1,321,470	\$ 2,180,826
Change in value of perpetual trusts	-	-	(311,590)	(311,590)
Change in value of split interest agreements	-	27,554	13,603	41,157
Unrealized investment gains	32,834	352,292	521,524	906,650
Realized investment losses	(199,133)	(2,136,586)	(3,591,743)	(5,927,462)
Investment management fees	(115,515)	-	-	(115,515)
Net investment return (loss)	\$ (208,549)	\$ (970,649)	\$ (2,046,736)	\$ (3,225,934)

(4) Assets held under split interest agreements

The Foundation is currently the beneficiary of certain charitable remainder trusts. The charitable remainder trusts provide for the payment of distributions to the grantor or other designated beneficiaries over the trust's term (usually the designated beneficiary's lifetime). At the end of the trust's term, the remaining assets are available for use by the Foundation as specified by the grantor. The portion of the trust attributable to the present value of the future benefits to be received by the Foundation is recorded as a temporarily restricted contribution in the period the trust is established. Investments held in the charitable remainder trusts are invested in equities and bonds and reported at fair value. The present value of the estimated annuity payments is calculated using rates of return ranging from 5.6% to 8.2% for 2008 based on the applicable mortality tables, and is shown in the table below.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(4) Assets held under split interest agreements (continued)

The Foundation currently administers certain charitable gift annuities. The assets contributed under the charitable gift annuities are invested in equities and bonds and are carried at fair value. Contribution support is recognized at the date the annuities are established after recording liabilities for the present value of the estimated future payments to be made to the donors and/or other beneficiaries. On an annual basis, the Foundation revalues the liability to make distributions to the designated beneficiaries based on actuarial assumptions. Adjustments to reflect the valuation of the present value of the estimated annuity payments and changes in actuarial assumptions are included as a component of net investment return in the statement of activities. The present value of the estimated annuity payments associated with the gift annuities is calculated using rates of return ranging from 3.8% to 11.0% for 2008 based on applicable mortality tables, and is shown in the table below.

Assets held under split-interest agreements consist of:

Charitable remainder trusts	
Equities	\$ 707,388
Fixed income	406,208
Other	<u>92,050</u>
	<u>1,205,646</u>
Charitable gift annuities	220,285
Equities	137,824
Fixed income	<u>264,894</u>
Other	<u>623,003</u>
Total assets held under split-interest agreements	<u>\$ 1,828,649</u>

Obligations under split-interest agreements consist of:

Charitable remainder trusts	\$ 609,344
Charitable gift annuities	<u>355,529</u>
Total obligations under split-interest agreements	<u>\$ 964,873</u>

(5) Assets held in custody for others

The Foundation maintains certain asset balances on behalf of others, which consists of the following at June 30, 2008:

Cash	\$ 240,255
Unconditional promises to give	5,995
Investments	5,034,694
Beneficial interest in perpetual trusts	<u>575,603</u>
	5,856,547
Less: accrued expenses	<u>(11,301)</u>
Total assets held in custody for others	<u>\$ 5,845,246</u>
Assets held on behalf of:	
Northern Arizona University	\$ 5,451,957
Parents' Association	281,136
Alumni Association	<u>112,153</u>
	<u>\$ 5,845,246</u>

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(6) Furniture and equipment

Furniture and equipment consists of:

Cost or donated value:

Office equipment	\$ 13,281
Computer software	92,438
Total cost or donated value	105,719
Accumulated depreciation and amortization	(31,769)
Furniture and equipment, net	<u>\$ 73,950</u>

Depreciation expense and amortization expense charged to operations was \$18,946 for 2008.

(7) Leases

Office space - The Foundation has entered into an operating 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 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 totaled \$7,560 for the year ended June 30, 2008.

Educational broadcast system licenses - The Foundation has been granted several educational broadcast system (EBS) licenses from the Federal Communications Commission (FCC). Additionally, during fiscal year 2008, 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, 2008, the Foundation had only purchased EBS licenses totaling \$5,570,040. This amount is included in EBS revenue in the accompanying statement of activities. The remaining balance of approximately \$9,808,000 is included in deferred revenue in the accompanying statement of financial position.

The Foundation leases the licenses to various companies. The licenses are granted for ten-year terms, which are due to expire through May 2015. 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 \$764,965 for the year ended June 30, 2008.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(7) Leases (continued)

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

Fiscal year ending June 30

2009	\$	832,951
2010		818,757
2011		830,322
2012		844,928
2013		352,608
Thereafter		<u>379,200</u>
	\$	<u>4,058,766</u>

(8) 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. Additionally, for the year ended June 30, 2008, approximately \$971,998 of the temporarily restricted net asset balance is restricted for the various building projects that are occurring on the University campus.

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.

(9) 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 contributed 9.1% of their salary to the plan for the year ended June 30, 2008. 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, 2008, the Foundation's contribution expense was \$12,888.

(10) Related party transactions

The Foundation rents office space and equipment from the University. See additional discussion of agreement in Note 7.

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, 2008 was \$281,745. In addition, the Foundation had amounts payable to this company of \$24,235 at June 30, 2008.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2008

(11) Fair value of financial instruments

The Foundation has a number of financial instruments, consisting of cash, pledges receivable, investments, split interest agreements and related liabilities, and accounts payable. The Foundation estimates that the fair value of these financial instruments at June 30, 2008 do not materially differ from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial position due to the short maturities of those instruments or due to the fact that the instrument is currently carried at its fair value.

The fair value of financial instruments was determined as follows.

Cash - The carrying amount approximates fair value because of the short maturity of these instruments.

Pledges receivable - The carrying amounts approximate fair value of pledges receivable because the Foundation discounts the future cash flows using risk free rates.

Investments - The carrying amounts approximate fair value because investments in marketable equity and debt securities are based on quoted market prices. Investment securities without quoted market prices are valued at estimated fair value using appropriate valuation methods that consider the underlying assets and financial reports, if possible to determine, otherwise at cost.

Split interest agreements - The carrying amounts approximate fair value because the carrying amount is the market value of debt and equity securities and mutual funds at June 30, 2008. The estimated liability for split interest agreements is valued at the present value of estimated future payments to beneficiaries.

Accounts payable - The carrying amount approximates fair value because of the short maturity of these instruments.