

**NORTHERN ARIZONA
UNIVERSITY FOUNDATION, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2009

**NORTHERN ARIZONA
UNIVERSITY FOUNDATION, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2009

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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, 2009, 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, 2009, 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 14, 2009

Mayer Hoffman McCann P.C.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2009

ASSETS

CASH AND CASH EQUIVALENTS	\$ 3,771,947
PLEDGES RECEIVABLE, net	8,323,268
BEQUESTS RECEIVABLE	88,215
OTHER RECEIVABLES	169,956
INVESTMENTS	59,646,025
FURNITURE AND EQUIPMENT, net	55,463
EBS LICENSES, net	5,558,737
DONATED ASSETS HELD FOR SALE	74,228
ASSETS HELD UNDER SPLIT INTEREST AGREEMENTS	1,429,012
CASH SURRENDER VALUE OF LIFE INSURANCE	606,465
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	<u>2,639,750</u>
TOTAL ASSETS	<u>\$ 82,363,066</u>

LIABILITIES AND NET ASSETS

ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	\$ 158,771
ASSETS HELD IN CUSTODY FOR OTHERS	4,987,183
DEFERRED REVENUE	8,734,258
OBLIGATIONS UNDER SPLIT INTEREST AGREEMENTS	<u>799,660</u>
TOTAL LIABILITIES	<u>14,679,872</u>
NET ASSETS	
Unrestricted	15,800,696
Temporarily restricted	17,146,215
Permanently restricted	<u>34,736,283</u>
TOTAL NET ASSETS	<u>67,683,194</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 82,363,066</u>

See Notes to Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES				
Public contributions	\$ 786,859	\$ 4,863,061	\$ 1,018,075	\$ 6,667,995
EBS revenue (Note 9)	2,308,960	-	-	2,308,960
Investment return (loss) (Note 3)	(6,406,690)	(4,037,006)	(220,202)	(10,663,898)
Change in cash surrender value of life insurance	304,167	-	-	304,167
Loss on impairment of assets held for sale	(48,000)	-	-	(48,000)
Other income	434,424	60	-	434,484
Reclassification of donor intent	-	73,861	(73,861)	-
Net assets released from restrictions	9,143,027	(9,143,027)	-	-
TOTAL SUPPORT AND REVENUES	6,522,747	(8,243,051)	724,012	(996,292)
EXPENSES				
Program expenses:				
Disbursements for educational purposes	2,057,361	-	-	2,057,361
Scholarships	1,854,728	-	-	1,854,728
Facilities	32,891	-	-	32,891
Grants and research	222,794	-	-	222,794
Contributions	634,580	-	-	634,580
Other University programs	582,239	-	-	582,239
Total program expenses	5,384,593	-	-	5,384,593
Supporting services:				
Fundraising	2,146,795	-	-	2,146,795
Management and general	427,917	-	-	427,917
Amortization of EBS licenses	1,226,308	-	-	1,226,308
Total supporting services	3,801,020	-	-	3,801,020
TOTAL EXPENSES	9,185,613	-	-	9,185,613
CHANGE IN NET ASSETS	(2,662,866)	(8,243,051)	724,012	(10,181,905)
NET ASSETS RECLASSIFIED UPON ADOPTION OF FSP FAS 117-1 (Note 8)	-	2,543,871	(2,543,871)	-
NET ASSETS, BEGINNING OF YEAR	18,463,562	22,845,395	36,556,142	77,865,099
NET ASSETS, END OF YEAR	\$ 15,800,696	\$ 17,146,215	\$ 34,736,283	\$ 67,683,194

See Notes to Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2009

Cash flow from operating activities:	
Change in net assets	\$ (10,181,905)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Change in present value of discount on pledges receivable	363,366
Net unrealized losses on investments	12,588,299
Donated securities	5,694
Gain on sale of assets held for sale	48,818
Impairment loss on assets held for sale	48,000
Change in value of beneficial interest in perpetual trusts	715,427
Change in value of split-interest agreements	(236,070)
Depreciation and amortization	18,487
Amortization of EBS licenses	1,226,308
Increase (decrease) in:	
Pledges receivable	787,837
Interest receivable	160,006
Bequests receivable	1,066,018
Other receivables	(85,417)
Prepaid expenses	5,985
Decrease (increase) in:	
Accounts payable and accrued liabilities	(16,910)
Deferred revenue	(1,073,862)
Net cash provided by operating activities	<u>5,440,081</u>
Cash flows from investing activities:	
Purchases of investments	(40,900,694)
Purchases of EBS licenses	(1,215,005)
Proceeds from sales of investments	41,288,663
Change in collections	284,500
Change in cash surrender value of life insurance	(304,167)
Change in assets held in custody for others	(858,063)
Net cash used in investing activities	<u>(1,704,766)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	3,735,315
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>36,632</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,771,947</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITIES	
Donated investment securities	<u>\$ 5,694</u>
Donated assets held for sale	<u>\$ 48,818</u>
Change in cash surrender value of life insurance	<u>\$ 304,167</u>

See Notes to Financial Statements

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(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 fair value include certain liquid accounts which are generally not used in operations. Amounts at each institution are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). Cash and investment balances totaling \$5,093,308 at June 30, 2009 contain donor imposed restrictions limiting the use of the cash and investments for specified purposes.

Pledges receivable - Unconditional promises to give (pledges) that are 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 initially recorded at the fair value of their estimated future cash flows as of the date of the promise to give through the use of a present value discount technique. In periods subsequent to initial recognition, unconditional promises to give are reported at the amount management expects to collect and are discounted over the collection period using the same discount rate as determined at the time of initial recognition. The discount rate determined at the initial recognition of the unconditional promise to give is based upon management's assessment of many factors, including when the receivable is expected to be collected, the creditworthiness of the other parties, the Foundation's past collection experience and its policies concerning the enforcement of promises to give, expectations about possible variations in the amount or timing, or both, of the cash flows, and other factors concerning the receivable's collectibility. Amortization of the discounts is included in support from contributions. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

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, 2009, bequests receivable 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, 2009

(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.

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 - The Foundation accounts for its investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the Foundation is required to report Investments in equity securities that have readily determinable fair values, and all investments in debt securities, at fair value. The fair value is 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.

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, 2009

(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, 2009, 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 fifteen life insurance policies covering the lives of certain donors to the Foundation. The face amounts of the policies total approximately \$19.2 million. The policies are recorded at their cash surrender value of approximately \$606,000 at June 30, 2009. Policy earnings and expenses are included in the accompanying statement 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 the 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 estimated useful lives of 5 to 10 years.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(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 provisions of SFAS No. 144, *Accounting for the Impairment or Disposal 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 2009, the Foundation recorded a \$48,000 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.

The majority of the Foundation's funds are subject to donor-imposed temporary and permanent restrictions. The Foundation holds certain donated funds as donor-restricted endowments, which have principal amounts to be held in perpetuity and are classified as permanently restricted net assets. The Foundation's Board of Directors has, through agreements between Foundation's management and University representatives, designated certain gifts as quasi-endowments, which are classified as temporarily restricted net assets based on the original gift purpose.

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, 2009 as reclassification of donor intent.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

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

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.

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). FIN 48 was originally effective for fiscal years beginning after December 15, 2006. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109. In December 2009, the FASB issued FASB Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* ("FSP FIN 48-3") which extended the period of adoption of FIN 48 to fiscal years beginning after December 15, 2009. The Foundation has elected to defer the application of FIN 48 in accordance with FSP FIN 48-3. The Foundation evaluates its uncertain tax positions, if any, on a continual basis through review of its policies and procedures, review of its regular tax filings, and discussions with outside experts.

Subsequent events - The Foundation has evaluated events through October 14, 2009, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.

(2) 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	<u>1,011,909</u>
Gross pledges receivable	9,389,163
Discount to present value	(913,064)
Allowance for uncollectible pledges	<u>(152,831)</u>
Total pledges receivable, net	<u>\$ 8,323,268</u>

Pledges receivable are stated at the amount management expects to collect and are discounted over the collection period using discount rates ranging from 0.5% to 5.2%. Management provides for uncollectible contributions receivable through a charge to earnings and a credit to the allowance for uncollectible pledges receivable. Balances still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for uncollectible pledges receivable and a credit to pledges receivable. Approximately 79% of the gross pledges 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.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(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, 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.

(3) Investments

The cost and fair value 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
Total investments	\$ 59,646,025	\$ 71,974,815

Investments include funds held for the custody of others of \$3,860,105 at June 30, 2009. The Foundation has recorded a custodial liability for these investments.

Expenses relating to investment income, including custodial fees and investment advisory fees, totaled \$20,612 and have been netted against investment earnings in the accompanying statement of activities.

Investment return (loss) for the year ended June 30, 2009 consists of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Dividends and interest	\$ 1,076,493	\$ 1,447,728	\$ 36,342	\$ 2,560,563
Realized investment gains	18,356	348,755	-	367,111
Change in value of perpetual trusts	-	(715,427)	-	(715,427)
Change in value of split interest agreements	-	(10,690)	(256,544)	(267,234)
Unrealized investment losses	(7,480,927)	(5,107,372)	-	(12,588,299)
Investment management fees	(20,612)	-	-	(20,612)
Net investment return (loss)	\$ (6,406,690)	\$ (4,037,006)	\$ (220,202)	\$ (10,663,898)

(4) 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	(50,256)
Furniture and equipment, net	\$ 55,463

Depreciation and amortization expense charged to operations was \$18,487 for 2009.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(5) 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 2009 based on the applicable mortality tables, and is shown in the table below.

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 7.6% for 2009 based on applicable mortality tables, and is shown in the table below.

Assets held under split-interest agreements consist of:

Charitable remainder trusts	
Equities	\$ 579,531
Fixed income	304,862
Other	<u>26,323</u>
Total charitable remainder trusts	<u>910,716</u>
Charitable gift annuities	
Equities	311,620
Fixed income	180,690
Other	<u>25,986</u>
Total charitable gift annuities	<u>518,296</u>
Total assets held under split-interest agreements	<u>\$ 1,429,012</u>

Obligations under split-interest agreements consist of:

Charitable remainder trusts	\$ 443,544
Charitable gift annuities	<u>356,116</u>
Total obligations under split-interest agreements	<u>\$ 799,660</u>

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(6) 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 trusts	<u>475,244</u>
	4,999,211
Less: accrued expenses	<u>(12,028)</u>
Total assets held in custody for others	<u>\$ 4,987,183</u>
Assets are held on behalf of:	
Northern Arizona University	\$ 4,495,892
Parents' Association	304,380
Alumni Association	<u>186,911</u>
Total	<u>\$ 4,987,183</u>

(7) 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, 2009 approximately \$300,867 of the temporarily restricted net asset balance is restricted for various building projects that are occurring on the University campus.

(8) Endowments

The Foundation's endowments consist of 558 individual funds established for a variety of purposes. Its endowments include both donor-restricted endowment funds and funds designated by the Board of Directors to function on endowments. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

In September 2008, the State of Arizona enacted a version of the Uniform Prudent Management of Institutional Funds Act (SPMIFA). The Board of Directors of the Foundation has interpreted SPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, and (b) the original value of subsequent gifts to the permanent endowment. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

In August 2008, the FASB issued FSP FAS 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*. The Foundation had no changes to its net asset classification as a result of adoption of this accounting pronouncement as of July 1, 2008.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(8) Endowments (continued)

The Foundation had been previously operating under an enacted version of the Uniform Management of Institutional Funds Act. Consistent with FSP FAS 117-1, the change in law prompted a change in the net asset classification of the Foundation's endowments as of the beginning of fiscal year 2009. Those changes as of the beginning of the year are depicted below:

	Pre-Adoption of FSP FAS 117-1	Post-Adoption of FSP FAS 117-1	Reclassification
Permanently restricted	\$ 35,953,758	\$ 33,409,887	\$ (2,543,871)
Temporarily restricted	2,740,170	5,284,041	2,543,871
Unrestricted	2,179,940	2,179,940	-
Total donor-restricted funds	\$ 40,873,868	\$ 40,873,868	\$ -

The endowment net asset composition by type of fund as of June 30, 2009 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ (8,990,283)	\$ -	\$ 34,241,473	\$ 25,251,190
Quasi-endowments	-	1,061,688	-	1,061,688
Board-designated endowment funds	3,487,357	-	-	3,487,357
	\$ (5,502,926)	\$ 1,061,688	\$ 34,241,473	\$ 29,800,235

The changes in endowment net assets for the year ended June 30, 2009 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 2,179,940	\$ 5,284,041	\$ 33,409,887	\$ 40,873,868
Contributions	700,862	15,765	905,447	1,622,074
Investment return:				
Investment income	80,874	1,569,615	-	1,650,489
Net depreciation	(6,429,994)	(4,389,880)	-	(10,819,874)
Reclassification of donor intent	-	73,861	(73,861)	-
Appropriation of endowment assets for expenditure	(99,517)	(1,491,714)	-	(1,591,231)
Expenditures	(1,935,091)	-	-	(1,935,091)
Endowment net assets, end of year	\$ (5,502,926)	\$ 1,061,688	\$ 34,241,473	\$ 29,800,235

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$5,502,926 as of June 30, 2009. These deficiencies resulted from unfavorable market fluctuations.

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's spending and investment policies work together to achieve this objective. Actual returns in any given year may vary from this amount.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(8) Endowments (continued)

To achieve its investment objectives over long periods of time, the Foundation has adopted an investment strategy that invests in domestic and international equities, and fixed income securities. The majority of assets are invested in equity or equity-like securities. Fixed income securities are used to lower short-term volatility. Diversification by asset class, investment style, investment manager, etc. is employed to avoid undue risk concentration and enhance total return. The primary performance objective is to achieve an annualized total rate of return, net of investment fees, that is equal to or greater than 4% plus inflation over long periods of time.

The spending policy determines the amount of money in a given year that will be distributed from the Foundation's various endowment assets, which includes donor advised, agency, designated, scholarship, field of interest and unrestricted. The current spending policy is at the discretion of the Board of Directors and is based on a three year rolling average. Based on the spending policy, over the long-term, the Foundation expects its endowment assets to grow at the rate of inflation. This is consistent with the Foundation's objective to maintain the purchasing power of endowment assets as well as to provide additional real growth through new gifts and investment return.

(9) 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, 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 2009 and 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, 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.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(9) 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 years ending June 30

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>

(10) 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 8.95% of their salary to the plan for the year ended June 30, 2009. The other Foundation employees participate in a defined contribution plan and contributed 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 100% of the employees' contributions to the plans. For the year ended June 30, 2009 the Foundation's contribution expense was \$12,755.

(11) Related party transactions

The Foundation rents office space and equipment from the University. See additional discussion of the agreements 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, 2009 was \$199,490.

(12) Fair value measurements

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. The Foundation adopted SFAS No. 157 as of July 1, 2008 for financial and nonfinancial assets and financial liabilities subject to fair value measurement on a recurring basis. There was no material impact on the Foundation's financial statements for the adoption of this standard. SFAS No. 157 establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values. SFAS No. 157 requires that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

NORTHERN ARIZONA UNIVERSITY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2009

(12) Fair value measurements (continued)

The following table summarizes the valuation of the Foundation's financial and nonfinancial instruments subject to recurring fair value measurement by the above SFAS No. 157 categories as of June 30, 2000:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
U.S. Government/agency bonds	\$ 6,972,017	\$ 6,972,017	-	\$ -
Corporate bonds	15,233,471	15,233,471	-	-
Common stock	25,038,509	25,038,509	-	-
International equity funds	11,269,549	11,269,549	-	-
Money market funds	1,132,479	1,132,479	-	-
Assets held under split interest agreements	1,429,012	1,429,012	-	-
Beneficial interest in trusts	2,639,750	-	-	2,639,750
Assets held in custody for others	<u>(4,987,183)</u>	<u>-</u>	<u>(4,987,183)</u>	<u>-</u>
Total	<u>\$ 58,727,604</u>	<u>\$ 61,075,037</u>	<u>\$ (4,987,183)</u>	<u>\$ 2,639,750</u>

The table below presents the changes in fair value measurements that used Level 3 inputs during the year ended June 30, 2009:

	<u>Beneficial interest in trusts</u>
Balances at July 1, 2008	\$ 3,355,177
Change in value recognized in earnings	<u>(715,427)</u>
Balance at June 30, 2009	<u>\$ 2,639,750</u>

The Foundation had no other financial or nonfinancial instruments with recurring fair value measurements.