



**Northern Arizona  
University**

## REPORT HIGHLIGHTS FINANCIAL STATEMENT AUDIT

### Subject

Northern Arizona University issues financial statements annually. The University is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the University has met its responsibilities.

### Our Conclusion

The information in the University's financial statements is fairly stated in all material respects, and the financial statements can be relied upon. This information is also incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.



# 2005

Year Ended June 30, 2005

## University Implements New Financial Reporting Standard

During fiscal year 2005, the University implemented Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. This reporting standard requires the University to disclose its investment policies and any investment and deposit risks related to credit risk, custodial credit risk, concentration of credit risk, foreign currency risk, and interest rate risk. These deposit and investment risks are described below.

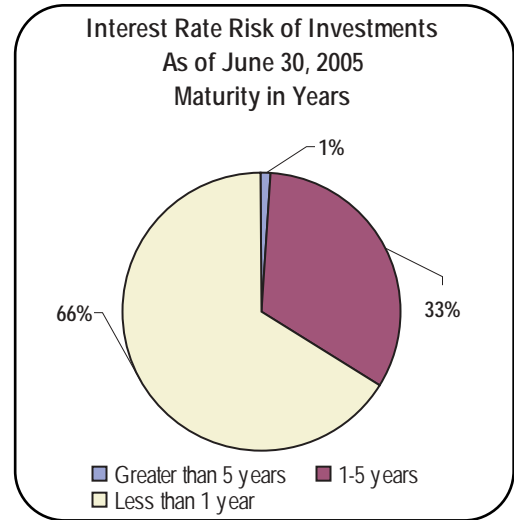
**Credit risk:** This is the risk that an issuer of a debt security will not fulfill its obligations. Governments must disclose the credit quality ratings of investments in most debt securities. The University obtained credit quality ratings from Standard and Poor's rating service. University securities subject to a credit risk rating received Standard and Poor's highest ratings, AAA. These rated securities comprised 68 percent of the University's investments. The remaining University investments at June 30, 2005, consisted of monies invested with the Arizona State Treasurer, the NAU Foundation, and trust fund monies held and invested by the University of Arizona. These are considered pooled investments which are not subject to a credit risk rating.

**Custodial credit risk:** This is the risk that a government will not be able to recover deposits if a depository financial institution fails, or recover the value of an investment if the outside party holding the investment fails. Governments must disclose deposits and investments subject to this risk by type and fair value, and describe how they are held. At June 30, 2005, the University had \$92.6 million of total deposits and investments that were exposed to custodial credit risk.

**Concentration of credit risk:** This is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Governments must generally disclose, by amount and issuer, investments in any one issuer that represents 5 percent or more of total investments. At June 30, 2005, the University had 12.3 percent in securities issued by the Federal Home Loan Bank, and 8.8 percent in securities issued by the Federal Home Loan Mortgage Corporation.

**Foreign currency risk:** This is the risk that changes in exchange rates will adversely affect the fair value of a deposit or investment. Governments must disclose by currency denomination and type the balances of deposits and investments exposed to foreign currency risk. At June 30, 2005, the University held no foreign deposits or investments.

**Interest rate risk:** This is the risk that changes in interest rates will adversely affect the fair value of an investment in debt securities. The University uses the segmented time distribution method of disclosure, as it is most consistent with the University's method of identifying and managing this risk. Sixty-six percent of the University's debt securities that were subject to interest rate risk had a maturity of less than 1 year, as shown in the chart to the right.



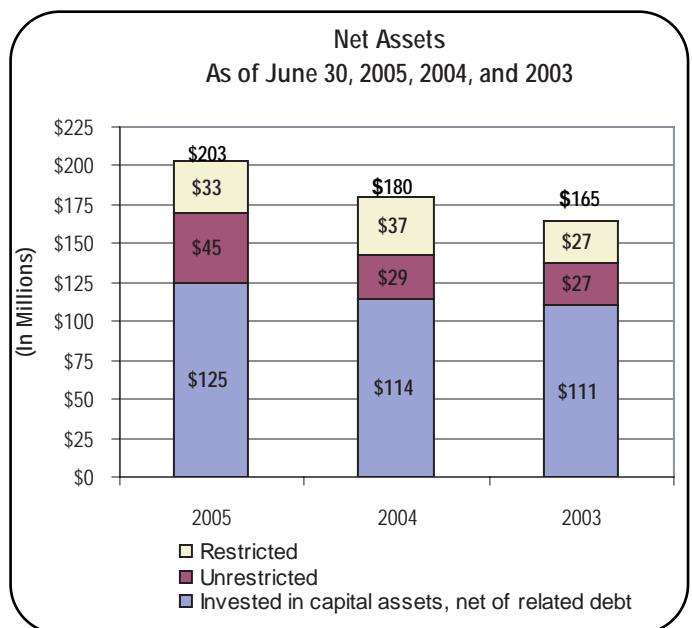
## Condensed Financial Information

The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The University's component units are not included in the condensed financial information that follows.

Changes in net assets over time are one way to measure the University's financial health. Total net assets have increased from \$165 million as of June 30, 2003, to \$203 million as of June 30, 2005, or 23 percent, as shown in the chart below.

### Statement of Net Assets

The Statement of Net Assets reports all of the University's assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, the difference between assets and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on the use of those resources. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations.



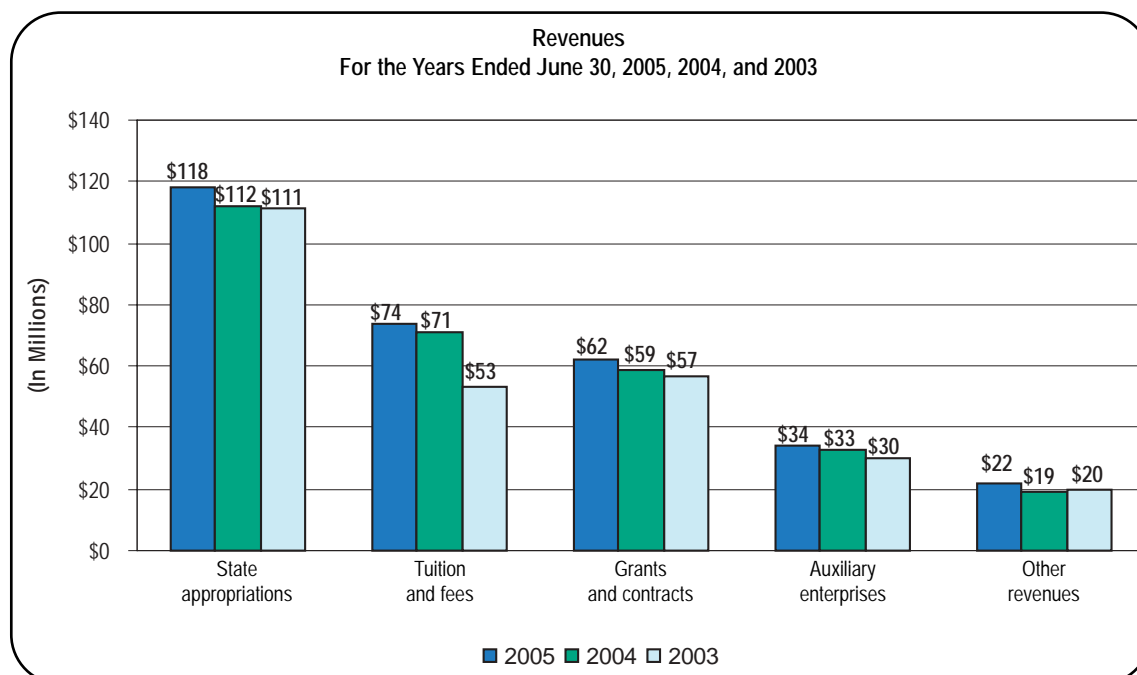
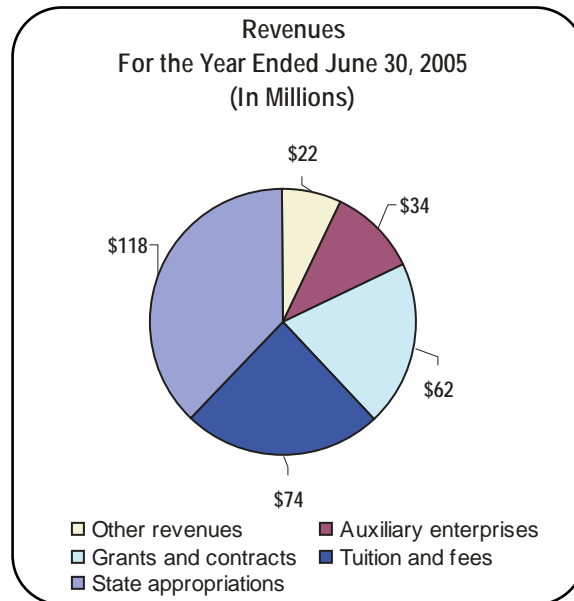
## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets increased \$23 million.

### Revenues

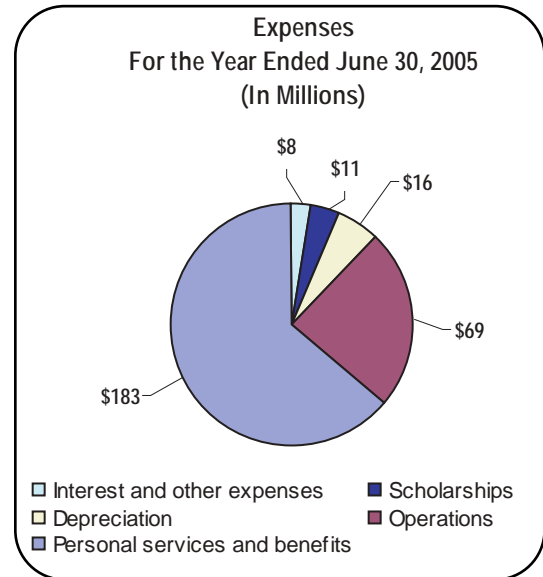
The chart to the right shows the components of the University's operating and nonoperating revenues for the year ended June 30, 2005. State appropriations, tuition and fees, grants and contracts, and auxiliary enterprises revenues comprise 93 percent of the University's total revenues. Between fiscal years 2003 and 2005, total revenues have increased by \$39 million, or 14 percent. As shown in the chart below, the change primarily resulted from increases in state appropriations, tuition and fees, and grants and contracts revenues.

State appropriations increased by \$7 million, tuition and fees revenues increased by \$21 million, and grants and contracts revenues increased by \$5 million during the period. These changes primarily resulted from increases in appropriation adjustments for salary and benefits, increased rates for tuition and fees, and increases in grants awarded to the University for a research project.



## Expenses

The chart to the right shows the components of the University's operating and nonoperating expenses for the year ended June 30, 2005. Personal services and benefits, operations, and depreciation comprise 93 percent of the University's total expenses. Between fiscal years 2003 and 2005, total expenses have increased by \$18 million, or 7 percent. As shown in the chart below, the change primarily resulted from an increase in personal services and benefits. Personal services and benefits increased by \$14 million during the period. These changes primarily resulted from rising employee wages and benefit costs.



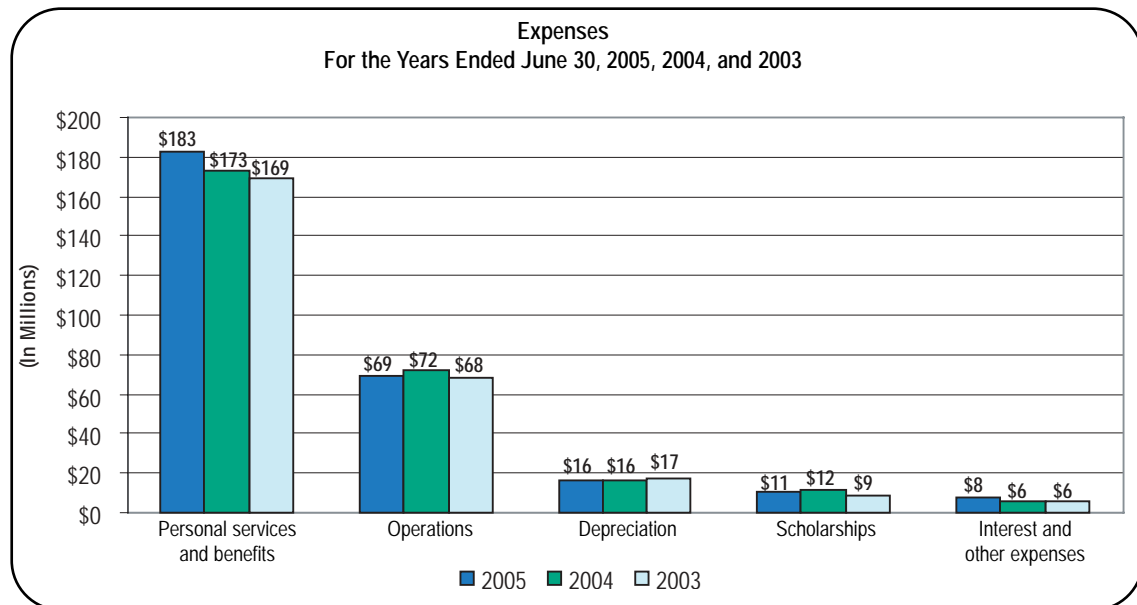
### TO OBTAIN MORE INFORMATION

A copy of the full report can be obtained by calling  
**(602) 553-0333**



or by visiting our Web site at:  
[www.azauditor.gov](http://www.azauditor.gov)

Contact person for this report:  
Dennis Levine



## Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2005.

**Cash Flows**  
For the Year Ended June 30, 2005  
(In Millions)

Cash flows from:	
Operating activities	\$ (92)
Noncapital financing activities	134
Capital financing activities	(18)
Investing activities	<u>(12)</u>
Net increase in cash and cash equivalents	<u>\$ 12</u>