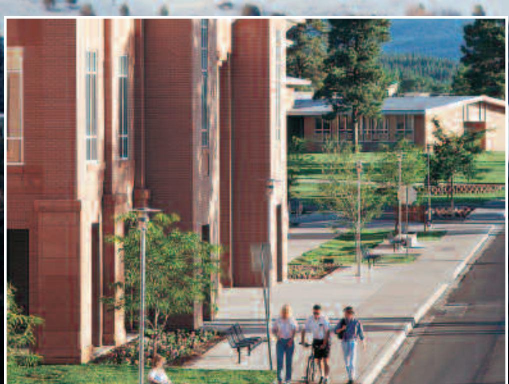
NORTHERN
ARIZONA
UNIVERSITY

Financial Report
2005-2006



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Comptroller's Office
Northern Arizona University
P.O. Box 4069
Flagstaff, AZ 86011-4069

This report is also available online at
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INDEPENDENT AUDITORS' REPORT

DEBRA K. DAVENPORT, CPA
Auditor General

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
Deputy Auditor General

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of Northern Arizona University as of and for the year ended June 30, 2006, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

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 and the reports of the other auditors provide a reasonable basis for our opinions.

As discussed in Note 1, the University's financial statements are intended to present the financial position, and the changes in financial position and cash flows, where applicable, of only those portions of the business-type activities, major fund, and aggregate discretely presented component units of the State of Arizona that are attributable to the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2006, and the changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of Northern Arizona University as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, the University implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 46, *Net Assets Restricted by Enabling Legislation*, for the year ended June 30, 2006, which represents a change in accounting principle.

The information presented in the Management's Discussion and Analysis section listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on such information.

Debbie Davenport
Auditor General

November 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The discussion and analysis of Northern Arizona University's financial statements provides an overview of the University's financial activities for the year ended June 30, 2006. Management has prepared the financial statements and the accompanying note disclosures along with the discussion and analysis. Responsibility for the completeness and fairness of this information rests with the University's management.

Using this Financial Report

This annual financial report includes the report of independent auditors, management's discussion and analysis, the financial statements in the format referred to below, and notes to the financial statements, which include the summary of significant accounting policies.

The financial statements presented by the University include the Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows.

- The Statement of Net Assets presents the financial position of the University at the end of the fiscal year. This statement is classified between current assets and liabilities and non-current assets and liabilities. In addition, capital assets are depreciated over the useful life of the asset and the annual depreciation amount is shown as a current year expense.

- The Statement of Revenues, Expenses, and Changes in Net Assets distinguishes between operating and nonoperating revenues and expenses, with state appropriations reported as nonoperating revenue. Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances.

- The financial statements include a Statement of Cash Flows. This statement provides information about the University's sources and uses of cash during the year.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the University reports as a component unit those organizations that raise and hold economic resources for the direct benefit of the University or its constituents. Based on GASB 39, the University identified two component units, the Northern Arizona University Foundation (Foundation), and the Northern Arizona Capital Facilities Finance Corporation (NACFFC).

Information on the component units can be found in this report in the component units' Statement of Financial Position, and Statement of Activities, as well as note 9.

The Management's Discussion and Analysis focuses only on the University and does not address the component units.

Financial Highlights

- Total net assets increased $10.4 million from July 1, 2005 to June 30, 2006.

- Student tuition and fees increased 10.6 percent from the previous year or about $7.9 million.

- Auxiliary enterprise revenues increased approximately $4.4 million from the prior year. The major increases were in residence life operations of $2.1 million and bookstore revenues of $1.2 million.

- Investment income increased 91.9 percent or $3.3 million from the previous year.

- State appropriations increased by approximately $7.1 million from the prior year.

- During the fiscal year the University issued $15.3 million of system revenue bonds, at an average interest rate of 4.70 percent, to finance construction and renovation projects on the Mountain Campus (see Capital Assets and Debt Administration section).

- During the fiscal year the University issued $40.3 million of certificates of participation, at an average interest rate of 4.65 percent, to construct the Laboratory Facility building and the North Campus Research Infrastructure project. (see Capital Assets and Debt Administration section).

- During the fiscal year the University issued $12.5 million of certificates of participation, at an average interest rate of 4.35 percent, to construct the Yuma research facility and the Utility Infrastructure project. (see Capital Assets and Debt Administration section).

- University cash and investments increased by $19.8 million to a total of $151.6 million at June 30, 2006.

STATEMENT OF NET ASSETS

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. A summarized comparison of the University's assets, liabilities, and net assets for the years ended June 30, 2006 and 2005 (in thousands), is as follows:

	2006	2005
Current assets	$ 81,385	$ 57,079
Noncurrent assets:		
Cash, cash equivalents, investments, and student loans receivable	79,441	93,436
Endowment investments	13,561	11,680
Capital assets – net of accumulated depreciation	312,555	253,131
Other noncurrent assets	57	119
Total noncurrent assets	405,614	358,366
Total assets	486,999	415,445
Long-term liabilities	240,222	181,903
Other liabilities	32,917	30,096
Total liabilities	273,139	211,999
Net assets	$ 213,860	$ 203,446

A review of NAU's Statement of Net Assets at June 30, 2006 and 2005 shows that the University's financial position continues to improve.

Current assets consist primarily of cash and investments, government grants and contracts receivable, and accounts receivable. Current assets increased by approximately $24.3 million during fiscal year 2006, mainly due to an increase in overall cash available to invest and a shorter maturity for U.S. Agency securities invested.

Noncurrent assets increased by approximately $47.2 million over the prior year. The majority of the increases are as follows. Noncurrent investments decreased by $16.7 million due to the University investing additional cash in government backed notes with shorter maturity dates. Capital assets, representing a majority of noncurrent assets, increased approximately $59.4 million over the fiscal year as the University continued it's captial renovations including the completion of the new College of Business and the College of Engineering renovation. The changes in capital assets are discussed in more detail in the Capital Assets and Debt Administration section.

Long-term liabilities increased by $58.3 million as of June 30, 2006. The increase is mainly attributed to the issuance of long-term debt, which is discussed further in the Capital Assets and Debt Administration section.

Other liabilities include accounts payable, accrued expenses, and deferred revenue. Other liabilities are higher by $2.8 million, from $30.1 million as of June 30, 2005 to $32.9 million as of June 30, 2006. This increase is mainly due to a $1.2 million increase in accrued payroll due to salary and benefit increases for all university employees. Accounts payable (amounts due to vendors) increased by $1.1 million over the fiscal year mainly due to increased construction retention payable and overall higher budgetary spending. Accrued interest increased $741 thousand due to the university's new debt issuances and the resulting rise in interest costs.

NET ASSETS

A summarized comparison of the University's net assets for the years ended June 30, 2006 and 2005 (in thousands), is as follows:

	2006	2005
Invested in capital assets, net of related debt	$ 129,359	$ 124,849
Restricted:		
Nonexpendable	16,971	15,177
Expendable	20,193	18,345
Unrestricted	47,337	45,075
Total net assets	**$ 213,860**	**$ 203,446**

Net assets at June 30, 2006 increased in total by $10.4 million or about 5.1 percent from 2005. This is a result of total combined sources of $331.6 million and total uses of $321.2 million. The University continues to invest in capital assets, physical plant, and infrastructure, the net increase of $4.5 million is a result of the increase in the net capital assets for the fiscal year, less the related debt used to fund those assets.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of the University, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to U.S. generally accepted accounting principles. See the table of Combined Sources and Uses of Funds on pages 10-11 for an overview of the composition of revenues and expenses. A summarized comparison of the University's revenues, expenses, and changes in net assets for the years ended June 30, 2006 and 2005 (in thousands), is as follows:

	2006	2005
Operating revenues:		
Tuition and fees, net of scholarship allowances	$ 82,011	$ 74,121
Government grants and contracts	51,151	54,026
Auxiliary enterprises	38,442	34,048
Other	9,964	9,341
Total operating revenues	181,568	171,536
Nonoperating revenues:		
State appropriations	124,690	117,635
Share of state sales tax	11,861	13,475
Grants and contracts	5,464	3,730
Investment income	6,814	3,550
Total nonoperating revenues	148,829	138,390
Total revenues	330,397	309,926
Operating expenses:		
Educational and general	258,982	234,804
Auxiliary enterprises	35,977	27,886
Depreciation	15,807	16,227
Total operating expenses	310,766	278,917
Nonoperating expenses:		
Interest expense on capital asset related debt	10,043	7,296
Other nonoperating expenses	390	1,049
Total expenses	321,199	287,262
Increase before capital grants and gifts and endowment additions	9,198	22,664
Capital grants and gifts and endowment additions	1,216	660
Increase in net assets	**$ 10,414**	**$ 23,324**

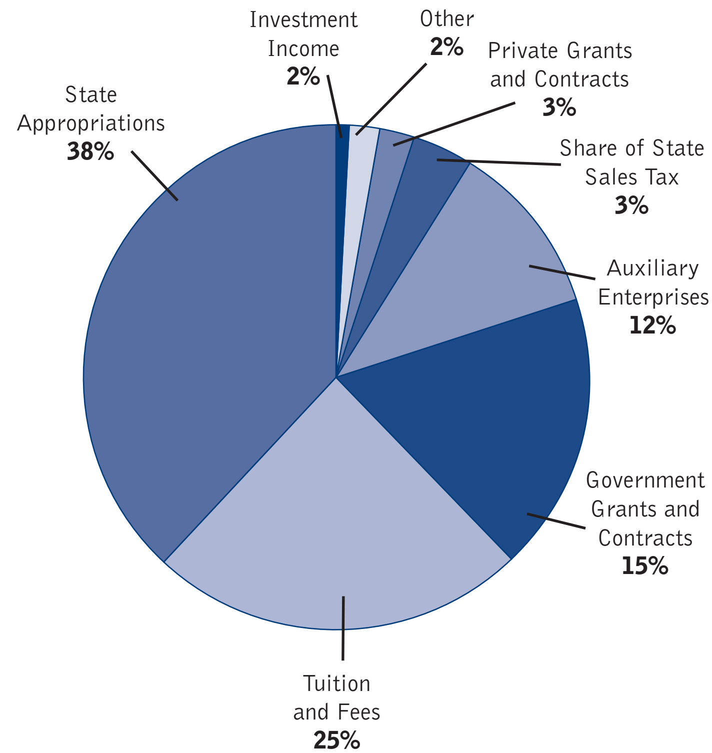
REVENUES ANALYSIS

State appropriations and tuition and fees continue to be the major funding sources for current operations related to educational purposes. Operating revenues (not including state appropriations) increased 5.9 percent or about $10.0 million in fiscal year 2006. This increase is due mainly to an increase in additional tuition and fee revenue of $7.9 million and an increase of $4.4 million in auxiliary enterprise revenues. The $7.9 tuition and fee revenue increase from fiscal year 2005 is mainly due to a board approved tuition rate increase. Auxiliary enterprises revenues increased mainly in the areas of residence life and the University bookstore. Residence life increased revenues by $2.1 million as a result of an overall 4% board approved rate increase, the recording of rental revenues from the Pine Ridge Village apartment complex and a reimbursement for construction expenses related to the McKay Village project. Bookstore revenues increased overall by $1.2 million in the following categories: $605 thousand in text books and $555 thousand in computer sales. Government grants and contracts revenue decreased $2.9 million mainly due to the return of grant funding to the U.S. Department of Commerce of approximately $2.6 million. Other changes in operating revenues include a decrease in private gifts grants and contracts of $187 thousand and an increase in other operating revenues of $810 thousand. Nonoperating revenues including state appropriations increased $10.4 million. State appropriations, accounting for a majority of the change, increased $7.1 million in 2006 over 2005. The increase in the appropriation is due to salary and employee related expenses increases of $4.2 million, a health insurance appropriation of $1.4 million, a retirement contribution increase of $950 thousand and other general appropriation increases of $550 thousand. Investment income increased $3.3 million due to more favorable interest rates and the University's increasing amount of invested cash. The revenues from share of state sales tax decreased by 12% or about $1.6 million during the year. This was due to timing and accrual (accounts receivable) changes from the prior year. Share of state sales tax are revenues appropriated to the Arizona Board of Regents for the Technology and Research Initiative Fund (TRIF).

EXPENSES ANALYSIS

Educational and general expenses continued to account for a majority of the operating expenses. Educational and general expenses increased in fiscal year 2006 by $24.2 million. Significant components of the increase within educational and general expenses were instruction, $5.3 million; academic support, $5.3 million; institutional support, $5.7 million; and public service, $3.8 million. In accordance with identified university priorities and strategic investment in faculty and staff retention, salary and benefit costs grew by $12.7 million funded by state appropriations as well as university targeted support on both state and local funds. Overall, employee related expenses increased from $41.0 million in fiscal year 2005 to $45.3 million in fiscal year 2006, a 10.5% increase. The increase in employee related expenses of $4.3 million was due mainly from increases in both health insurance and retirement costs. The increase in instruction was due to $6.7 million in salary and benefits, a $1.0 million increase in distributed learning expenditures offset by a $2.0 million decrease in instruction expenses in the restricted funds. The increase in academic support of $5.3 million was due to $1.5 million in salary and benefits increases and an increase in operations of $3.9 million including $1.2 million for equipping the College of Engineering and $1.9 million for equipping the new College of Business. Institutional support increased by $5.7 million, salary and benefit increases accounted for $4.8 million of the increase and an additional $900 thousand was expended in operations. The increase in Public Service was due to a $775 thousand increase in KNAU public radio, $653 thousand in Elderhostel programs and $2.0 million in various restricted activities including a $710 thousand increase in Arizona Public School consortium expenses. The increase in auxiliary enterprises of $8.1 million was mainly due to increases in residence life, $2.0 million, bookstore, $1.5 million, and athletics, $1.3 million. The increase in residence life is for equipment, furnishings and other expenses. The change in nonoperating expenses included a $2.7 million increase in interest expense on capital related debt. This was due to the additional debt service the University incurred as a result of issuing new long-term debt.

Total Revenues
Fiscal Year 2006



Expenses - By functional classification

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2006 and June 30, 2005, is as follows:

	2006	2005
Operating:		
Instruction	$ 103,438,574	$ 98,137,817
Research	21,232,016	19,615,438
Public service	25,965,408	22,184,784
Academic support	25,894,973	20,564,192
Student services	21,387,820	20,031,546
Institutional support	32,868,239	27,207,682
Operation and maintenance of plant	16,398,627	16,434,690
Scholarships and fellowships	11,796,548	10,627,631
Total educational and general expenses	258,982,205	234,803,780
Auxiliary enterprises	35,976,552	27,885,480
Depreciation	15,806,960	16,227,387
Total operating expenses	310,765,717	278,916,647
Nonoperating:		
Interest and other	10,432,798	8,344,980
Total Expenses	$ 321,198,515	$ 287,261,627

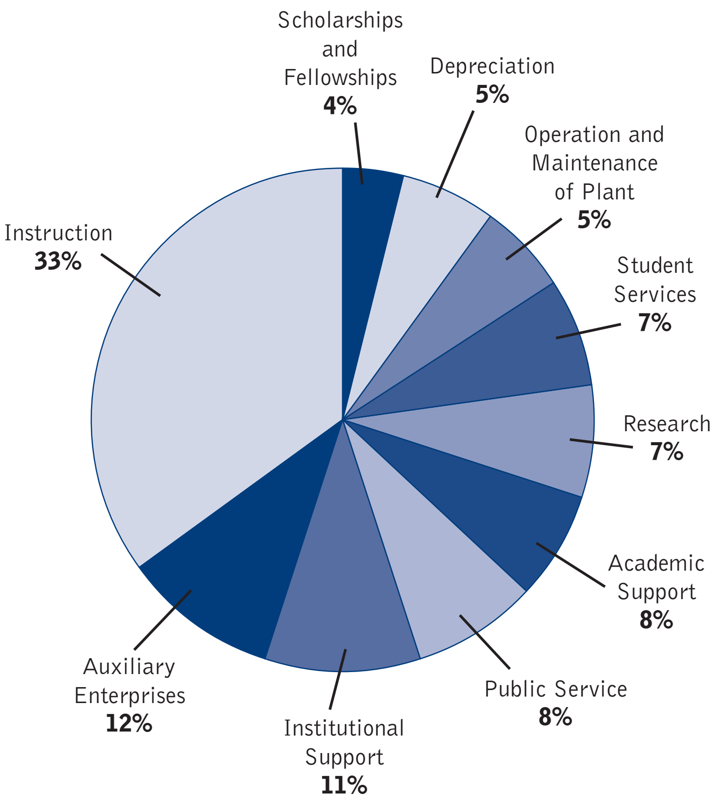
MANAGEMENT'S DISCUSSION AND ANALYSIS

Expenses - By natural classification

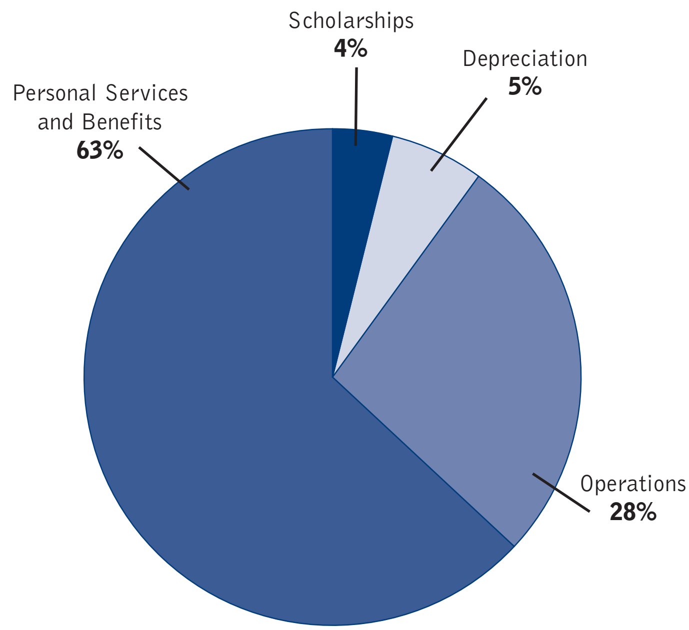
In addition to their functional (program) classification, it is also informative to review operating expenses by their natural (object) classification. A comparative summary of the University's expenses by natural classification for the years ended June 30, 2006 and June 30, 2005, is as follows:

	2006	2005
Operating:		
Personal services and benefits	$ 195,330,219	$ 182,661,618
Operations	87,831,990	69,400,011
Scholarships	11,796,548	10,627,631
Depreciation	15,806,960	16,227,387
Total operating	310,765,717	278,916,647
Nonoperating:		
Interest and other	10,432,798	8,344,980
Total expenses	$ 321,198,515	$ 287,261,627

Operating Expenses
Functional Classifications
Fiscal Year 2006



Operating Expenses
Natural Classifications
Fiscal Year 2006



MANAGEMENT'S DISCUSSION AND ANALYSIS

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets at June 30, 2006

At June 30, 2006, the University had $312.6 million invested in capital assets. During the year the University added $75.5 million in new capital assets and retired $5.2 million of obsolete assets. In addition, accumulated depreciation increased by $10.8 million. Details of capital assets for the years ended June 30, 2006 and 2005 are as follows:

	2006	2005
Land	$ 5,597,637	$ 5,598,637
Infrastructure	54,210,661	52,977,202
Buildings	333,495,348	288,375,885
Equipment	77,342,782	76,848,916
Library books and media	46,564,331	45,681,678
Construction in progress	57,351,835	34,807,074
Accumulated depreciation	(262,007,549)	(251,158,082)
Total capital assets	**$ 312,555,045**	**$ 253,131,310**

Significant capital additions completed or in progress, and the resources that funded their acquisitions for fiscal year 2006, were:

- Library acquisitions, $935,822, unrestricted net assets
- 4 level, 900 car parking structure project, $7,487,518, bond proceeds
- North Campus Infrastructure, $3,531,001, certificates of participation
- Applied Research and Development Building, $13,031,567, certificates of participation
- New College of Business Administration, $7,645,275, bond proceeds
- College of Engineering renovation and addition, $6,651,417, certificates of participation proceeds
- New Laboratory facility, $24,502,824, certificates of participation proceeds
- Wayfinding signage and landscape project, $848,048, bond proceeds

Projects in progress, or planned to commence in fiscal year 2007 funded from COPS and system revenue bonds include:

- North Campus Infrastrcuture
- New Laboratory facility
- Wayfinding signage and landscape project
- Yuma research facility
- Completion of a new Applied Research and Development building
- 4 level, 900 car parking structure project

In accordance with Arizona Revised Statutes § 15-1670, NAU will receive $5.9 million in State appropriations annually for lease-purchase capital financing in fiscal years 2008-2031 to fund research infrastructure projects. The construction of the Applied Research and Development Building, the College of Engineering and Technology renovation, the new laboratory facility and the north campus infrastructure projects are also to be funded from this source.

CAPITAL ASSETS AND DEBT ADMINISTRATION (continued)

Outstanding Debt at June 30, 2006

At June 30, 2006, the University had $236.9 million in outstanding bonds, certificates of participation, long-term obligations, and capital leases, an increase of approximately $57.2 million or 32 percent from fiscal year 2005. This is due to a reduction of $10.8 million of principal and fiscal year borrowings of $68.0 million. The $236.9 million is made up of $131.8 million in bonds, $90.3 million of certificates of participation and $14.8 million in long-term obligations and capital leases. During the year ended June 30, 2006, the University issued $15.3 million in system revenue bonds, with an average interest rate of 4.70 percent, for various project renovations on the mountain campus. The University also issued certificates of participation in the amount of $40.3 and $12.5 million, with an average interest rate of 4.65 and 4.35, respectively, to finance the Laboratory Facility building, the North Campus Research Infrastructure project, the Yuma research facility and the Utility Infrastructure project. The table below summarizes the University's outstanding debt from fiscal years 2006 and 2005.

	2006	2005
System revenue and housing bonds	$ 131,805,000	$ 126,860,000
Capital leases	13,120,000	13,225,000
Certificates of participation	90,285,000	37,585,000
Other long-term obligations	1,670,724	2,018,795
Subtotal	236,880,724	179,688,795
Less deferred amount on refunding	(1,557,697)	(1,823,914)
Plus bonds premium	4,898,448	4,037,928
Total	$ 240,221,475	$ 181,902,809

At June 30, 2006, the University maintained an A2 rating on outstanding system revenue bonds by Moody's Investors Service and an A+ rating from Standard and Poor's Rating Services. The University's outstanding certificates of participation maintained an A3 rating by Moody's Investors Service and an A rating from Standard and Poor's Rating Services. On September 1, 2006, the University entered into a ground lease with North Campus Facilities LLC for the construction of the conference center and garage. Construction commenced in September, 2006.

Economic Outlook

Arizona's three state universities received an increase in FY 2007 state expenditure authority of $142.6 million which is an 11.4 percent increase over their FY 2006 expenditure authority of $1.26 billion. This comes from an increase of $103.6 million in new general fund monies and $39 million in remitted tuition, fees and miscellaneous revenues. At Arizona State University state expenditure authority is up $82.2 million (13.7%), at Northern Arizona University state expenditure authority is up $14.6 million (8.9%), at the University of Arizona state expenditure authority is up $40.0 million (8.3%), and at the Arizona Board of Regents expenditure authority is up $5.8 million (63%). This happens at the same time that student enrollments continue to rise. There are now a record 120,425 students at Arizona's public universities for a 3.1 percent increase over Fall 2005. In Fall 2006 student headcount enrollments at Arizona State University grew by 2,245 (3.7%), Northern Arizona grew by 1,563 (8.3%), and at the University of Arizona they declined by 231 (-0.6%). Since the University is subject to the same economic variables that affect other financial entities, it is not possible to predict future outcomes. Management is well aware of the challenges ahead and is working diligently to continue to provide quality education and research activities to the State of Arizona and to the nation as a whole.

COMBINED SOURCES AND USES OF FUNDS
For the Year Ended June 30, 2006

SOURCES

State Appropriations **37.6%** Includes legislative appropriations from state of Arizona general revenue for current operations of the University and $367,400 for financial aid.	**$ 124,690,100**
Tuition and Fees, Net of Scholarship Allowances **24.7%** Includes $55,603,387 to support the operating budget, $9,497,759 for summer sessions, $43,409,743 for funding of local budgets, scholarships and retirement of non-housing bond indebtedness less $26,499,577 for scholarship allowances	**$ 82,011,312**
Government Grants and Contracts **15.5%** Includes operating revenues of $38,297,453 from federal grants and contracts, $6,715,318 from state grants and contracts, and $6,427,344 from local government grants and contracts.	**$ 51,440,115**
Auxiliary Enterprises **11.6%** Operations of substantially self-supporting activities such as housing, bookstore, student unions, and intercollegiate athletics.	**$ 38,441,977**
Share of State Sales Tax **3.6%** University's share of state sales tax collections from Proposition 301.	**$ 11,861,133**
Private Gifts, Grants, and Contracts **2.7%** Includes gifts, grants, and contracts for scholarships, endowments, and plant facility additions.	**$ 9,055,665**
Other Sources **2.2%** Includes additions to permanent endowments, capital grants and gifts, and other operating miscellaneous revenues.	**$ 7,298,973**
Investment Income **2.1%** Earnings from short-term investments of funds not necessary for immediate operational expenses and long-term investment of endowment and bond-retirement sinking funds.	**$ 6,813,911**
Total Sources	**$ 331,613,186**

Note: The Combined Sources and Uses of Funds is presented to highlight major financial data. The explanations provided are not intended to be all inclusive. This summary is presented to give an overview of total University financial operations. Operating and nonoperating funds are included. Sources and uses are allocated and controlled by budgets.

COMBINED SOURCES AND USES OF FUNDS
For the Year Ended June 30, 2006

USES

Instruction and Academic Support
40.3% — **$ 129,333,547**

Instruction, totaling $103,438,574, includes expenses of academic departments and other organizational units for undergraduate and graduate courses, and for occupational or technical instruction, including regular academic year, summer sessions, and continuing education. Academic support, totaling $25,894,973, includes libraries, audio-visual services, and academic administration.

Student Services and Institutional Support
16.9% — **$ 54,256,059**

Student services, totaling $21,387,820, includes areas such as admissions, registrar, minority services, counseling, placement, student aid administration, and health services. Institutional support, totaling $32,868,239, includes executive management, financial operations, computing support, human resource services, security, and University relations.

Research and Public Service
14.7% — **$ 47,197,424**

Research, totaling $21,232,016 are activities in which the primary objective is the discovery or application of knowledge that may be sponsored by external agencies or separately budgeted by organizational units within the University. Public service, totaling $25,965,408 are activities that make available to the general public the benefits of the instructional or research activities and include local school consortiums and public broadcasting.

Auxiliary Enterprises
11.2% — **$ 35,976,552**

Expenses of organizational units that furnish services to students, faculty and staff, and the general public for a fee directly related to the cost of the service and are managed as essentially self-supporting activities.

Operation and Maintenance of Plant
5.1% — **$ 16,398,627**

Represents expenses for the operation and maintenance of plant, including administration, maintenance and custodial services, landscaping and grounds upkeep, minor repairs and renovation, utilities, and property insurance.

Depreciation
4.9% — **$ 15,806,960**

Depreciation expense of capital assets over their useful lives.

Scholarships and Fellowships
3.7% — **$ 11,796,548**

Scholarships and fellowships are awarded to students enrolled in formal coursework for which the students are not required to perform personal services or repay the awards.

Other Uses
3.2% — **$ 10,432,798**

Other uses include $10,042,667 in interest expense on capital asset-related debt, a $26,564 loss on disposal of capital assets, and $363,567 in nonoperating expenses.

Total Uses — **$ 321,198,515**

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
June 30, 2006

ASSETS	Business-Type Activities
Current assets:	
Cash and cash equivalents	$ 38,549,452
Investments	24,638,750
Receivables, net of allowance for uncollectibles:	
Accounts receivable	5,927,766
Accrued interest	1,251,211
Endowment - land sale	7,641
Government grants and contracts	6,866,653
Student loans	1,283,742
Other assets	1,228,438
Inventories	1,631,820
Total current assets	$ 81,385,473
Noncurrent assets:	
Restricted cash and investments held by trustee for capital projects	$ 57,788,876
Investments	17,069,661
Student loans receivable, net of allowance	4,582,464
Endowment investments	13,561,389
Other noncurrent assets	56,848
Capital assets, not being depreciated	62,949,472
Depreciable capital assets, net of depreciation	249,605,573
Total noncurrent assets	$ 405,614,283
Total assets	$ 486,999,756
LIABILITIES	
Current liabilities:	
Accounts payable	$ 7,096,000
Accrued payroll and employee benefits	8,073,725
Interest payable	1,873,751
Deferred revenue	8,652,323
Accrued compensated absences	4,479,007
Deposits held in custody for others	1,716,460
Current portion of long-term debt	10,842,632
Total current liabilities	$ 42,733,898
Noncurrent liabilities:	
Deposits held in custody for others	$ 1,026,610
Long-term debt	229,378,843
Total noncurrent liabilities	$ 230,405,453
Total liabilities	$ 273,139,351
NET ASSETS	
Invested in capital assets, net of related debt	$ 129,358,730
Restricted:	
Nonexpendable:	
Scholarships and fellowships	10,032,116
Student loans	6,939,281
Expendable:	
Scholarships and fellowships	1,343,050
Research	5,545,343
Academic department use	13,304,515
Unrestricted	47,337,370
Total net assets	$ 213,860,405

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION - Component Units
June 30, 2006

	NAU FOUNDATION	NACFFC	TOTAL
ASSETS			
Cash and cash equivalents	$ 2,725,702		$ 2,725,702
Investments	49,535,758		49,535,758
Accounts receivable	232,450	$ 449,891	682,341
Unconditional promises to give (net of allowance)	3,013,384		3,013,384
Assets held by trustee	1,359,601	3,661,822	5,021,423
Property, plant and equipment, net of depreciation	1,244	17,201,407	17,202,651
Net investment in sales-type lease		13,110,417	13,110,417
Other assets	466,580	2,449,732	2,916,312
Total assets	$ 57,334,719	$ 36,873,269	$ 94,207,988
LIABILITIES			
Accounts payable and accrued liabilities	$ 245,044	$ 198,323	$ 443,367
Bonds payable		35,390,753	35,390,753
Assets held in custody	5,440,520		5,440,520
Other liabilities	419,599	149,137	568,736
Total liabilities	$ 6,105,163	$ 35,738,213	$ 41,843,376
NET ASSETS			
Unrestricted	$ 8,895,285	$ 1,135,056	$ 10,030,341
Temporarily restricted	15,668,375		15,668,375
Permanently restricted	26,665,896		26,665,896
Total net assets	$ 51,229,556	$ 1,135,056	$ 52,364,612
TOTAL LIABILITIES AND NET ASSETS	$ 57,334,719	$ 36,873,269	$ 94,207,988

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For Year Ended June 30, 2006

	Business-Type Activities
REVENUES	
Operating Revenues	
Tuition and fees, net of scholarship allowances of $26,499,577, pledged as security for revenue bonds	$ 82,011,312
Government grants and contracts	51,150,749
Private grants and contracts	3,880,738
Auxiliary enterprises, includes revenues pledged as security for revenue bonds:	
Bookstore	9,643,480
Residence life, net of scholarship allowances of $1,397,315	17,942,401
Other auxiliaries	10,856,096
Other	6,082,965
Total operating revenues	$ 181,567,741
EXPENSES	
Operating Expenses	
Educational and general:	
Instruction	$ 103,438,574
Research	21,232,016
Public service	25,965,408
Academic support	25,894,973
Student services	21,387,820
Institutional support	32,868,239
Operation and maintenance of plant	16,398,627
Scholarships and fellowships	11,796,548
Auxiliary enterprises	35,976,552
Depreciation	15,806,960
Total operating expenses	$ 310,765,717
Operating loss	$ (129,197,976)
NONOPERATING REVENUES AND (EXPENSES)	
State appropriations	$ 124,690,100
Share of state sales tax - technology and research initiative funding	11,861,133
Government grants and contracts	289,366
Private gifts, grants, and contracts	5,174,927
Investment income	6,813,911
Interest expense on capital asset related debt	(10,042,667)
Loss on disposal of capital assets	(26,564)
Other nonoperating expenses	(363,567)
Total nonoperating revenues and expenses	$ 138,396,639
Income before other revenues, expenses, gains or losses	$ 9,198,663
Capital grants and gifts	$ 49,242
Additions to permanent endowments	1,166,766
Increase in net assets	$ 10,414,671
NET ASSETS	
Total net assets, July 1, 2005	$ 203,445,734
Total net assets, June 30, 2006	$ 213,860,405

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES - Component Units
For Year Ended June 30, 2006

	NAU FOUNDATION	NACFFC	TOTAL
CHANGES IN UNRESTRICTED NET ASSETS			
Unrestricted support	$ 483,084	$	$ 483,084
Investment earnings	1,004,119	827,577	1,831,696
Rent		93,273	93,273
Capital lease revenue		92,195	92,195
Other	1,234,204	863,723	2,097,927
Total unrestricted support	$ 2,721,407	$ 1,876,768	$ 4,598,175
Net assets released from restrictions	5,059,286		5,059,286
Total unrestricted revenues and support	$ 7,780,693	$ 1,876,768	$ 9,657,461
Expenses:			
Scholarships	$ 955,470	$	$ 955,470
Operating	2,376,517		2,376,517
Interest		819,849	819,849
Educational purposes	2,634,598		2,634,598
Amortization and depreciation		24,956	24,956
Other		188,795	188,795
Total expenses	$ 5,966,585	$ 1,033,600	$ 7,000,185
Increase in unrestricted net assets	$ 1,814,108	$ 843,168	$ 2,657,276
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Public contributions	$ 4,466,396		$ 4,466,396
Investment earnings	1,727,691		1,727,691
Other income changes	985		985
Net assets released from restrictions	(5,059,286)		(5,059,286)
Increase in temporarily restricted assets	$ 1,135,786		$ 1,135,786
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Public contributions	$ 2,065,073		$ 2,065,073
Investment earnings	30,674		30,674
Other income changes	18,116		18,116
Increase in permanently restricted net assets	$ 2,113,863		$ 2,113,863
INCREASE IN NET ASSETS	$ 5,063,757	$ 843,168	$ 5,906,925
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	$ 46,165,799	$ 291,888	$ 46,457,687
NET ASSETS, END OF YEAR	$ 51,229,556	$ 1,135,056	$ 52,364,612

See Notes to Financial Statements

STATEMENT OF CASH FLOWS
For Year Ended June 30, 2006

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 79,179,798
Grants and contracts	59,810,680
Payments to suppliers and providers of goods and services	(86,108,392)
Payments to employees	(190,825,696)
Payments for scholarships and fellowships	(11,796,548)
Loans issued to students	(1,633,755)
Collection of loans to students	1,631,198
Auxiliary enterprise receipts:	
Residence halls	17,709,158
Bookstore	9,595,513
Other auxiliaries	11,137,264
Other receipts	5,670,550
Net cash used by operating activities	$ (105,630,230)
Cash flows from noncapital financing activities:	
State appropriations	$ 124,690,100
Share of state sales tax	14,232,401
Gifts and grants for other than capital purposes	5,464,293
Federal direct student lending received	83,215,273
Federal direct student lending disbursed	(83,215,273)
Financial aid trust funds	1,166,766
Other payments	(363,566)
Net cash provided by noncapital financing activities	$ 145,189,994
Cash flows from capital financing activities:	
Proceeds from issuance of capital debt	$ 69,113,046
Proceeds from sale of capital assets	208,342
Purchases of capital assets	(75,416,359)
Principal paid on capital debt and leases	(10,763,071)
Interest paid on capital debt and leases	(9,270,837)
Net cash used by capital financing activities	$ (26,128,879)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	$ 4,565,169
Interest on investments	6,662,081
Purchase of investments	(12,947,645)
Net cash used by investing activities	$ (1,720,395)
Net increase in cash and cash equivalents	$ 11,710,490
Cash and cash equivalents - beginning of year	84,627,838
Cash and cash equivalents - end of year	$ 96,338,328
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	$ (129,197,976)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Depreciation expense	15,806,960
Changes in assets and liabilities - cash increase (decrease) related to:	
Receivables:	
Accounts receivable	455,111
Government grants and contracts	4,964,860
Student loans receivables and accrued interest from student loans	(13,176)
Inventories	660,793
Other assets	(387,077)
Accounts payable	1,062,806
Accrued payroll and employee benefits	1,179,486
Deferred revenue	(614,313)
Deposits held in custody for others	81,506
Accrued compensated absences	370,790
Net cash used by operating activities	$ (105,630,230)
Noncash transactions	
Gifts of capital assets	49,242
Decrease in fair value of investments	(260,224)
Amortization of loss on refunding and premiums	30,707
Losses on disposal of capital assets, net	26,564

See Notes to Financial Statements

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1—Summary of Significant Accounting Policies

Financial Statement Presentation

The accounting policies of the University conform to U.S. generally accepted accounting principles applicable to public institutions of higher education engaged only in business-type activities adopted by the Governmental Accounting Standards Board (GASB).

During the year ended June 30, 2006, the University implemented the provisions of GASB Statement No. 46, Net Assets Restricted by Enabling Legislation. GASB Statement No. 46 requires that net assets at the end of the reporting period that are restricted by enabling legislation be disclosed in the notes to financial statements, and had no effect on reported amounts of net assets.

Reporting Entity

The financial statements of the University include all monies, financial transactions, and activities for which the University has financial accountability. Fiscal responsibility for the University remains with the State of Arizona; therefore, the University is considered part of the reporting entity of the State for financial reporting purposes. The accompanying financial statements present the activities of the University and its discretely presented component units, the Northern Arizona University Foundation, Inc. (Foundation) and the Northern Arizona Capital Facilities Finance Corporation (NACFFC).

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

NACFFC was incorporated in October 2001, as a legally separate not-for-profit corporation under the laws of the State of Arizona for the purpose of acquiring, developing, constructing, maintaining and operating student housing and other capital facilities and equipment for the use and benefit of the University's students.

Although the University does not control the timing or amount of receipts from the Foundation, or the NACFFC, the restricted resources of both the Foundation, and the NACFFC, can only be used by, or for the benefit of the University or its constituents. Consequently, both the Foundation and the NACFFC are considered component units of the University and are discretely presented in the University's financial statements. For financial reporting purposes, only the statement of financial position and the statement of activities of the component units are included in the University's financial statements, as required by generally accepted accounting principles for public colleges and universities.

For financial reporting purposes, the Foundation and the NACFFC follow the Financial Accounting Standards Board (FASB) statements for not-for-profit organizations. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. Accordingly, those financial statements have been reported on separate pages following the respective counterpart statements of the University. The Foundation and the NACFFC have a June 30 year end. Complete financial statements as originally presented for the Foundation and the NACFFC can be obtained from the Northern Arizona University Comptroller's Office, P.O. Box 4069, Flagstaff, AZ 86011.

Basis of Accounting

The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider are met. All significant transactions resulting from internal activity have been eliminated.

The University follows FASB Statements and Interpretations issued on or before November 30, 1989; Accounting Principles Board Opinions; and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The University has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

The financial statements include a statement of net assets; a statement of revenues, expenses, and changes in net assets; and a statement of cash flows.

The statement of net assets provides information about the assets, liabilities, and net assets of the University at the end of the year. Assets and liabilities are classified as either current or noncurrent. Net assets are classified according to external donor restrictions or availability of assets to satisfy University obligations. Invested in capital assets net of related debt, represents the value of capital assets, net of accumulated depreciation, less any outstanding debt incurred to acquire or construct the assets. Nonexpendable restricted net assets are gifts that have been received for endowment purposes, the corpus of which cannot be expended and monies that are restricted for the purpose of issuing student loans. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

The statement of revenues, expenses, and changes in net assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Generally, revenues generated by the University for instruction, public service, and research are considered to be operating revenues. Other revenues used for instruction and public service, such as state appropriations, are not generated from operations and are considered to be nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

The statement of cash flows provides information about the University's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital financing, or investing activities.

The University has both restricted and unrestricted resources available for its operations. Generally, the use of these resources is managed at the department level. Restricted resources are primarily externally provided sponsored research grants and contracts, and externally provided student financial aid. When both restricted and unrestricted resources are available for use, typically restricted resources will be used first. University policy is that the funding source to be used is determined by each department based on (1) relative priorities of the department in accordance with University strategic initiatives, (2) externally imposed matching requirements of the restricted grants and contracts, and (3) any pertinent lapsing provisions of the restricted or unrestricted funding resources available for the expense.

Cash and Cash Equivalents
The University considers all short-term, highly liquid investments with maturities of less than three months from the date of acquisition to be cash equivalents. Cash and investments held by trustee, and funds invested through the State Treasurer's Local Government Investment Pool, are also considered cash equivalents.

Investments
Investments are reported at fair value. Fair value typically is the quoted market price for investments.

Receivables
Student loans and accounts receivable as of June 30, 2006, are reported less allowances for both estimated uncollectible amounts and collection costs of $963,200 and $1,323,500, respectively.

Inventories
Inventories are stated at the lower of cost or market. The cost of bookstore inventories is determined by the retail inventory method. The cost of other inventories is determined generally using the first-in, first-out or weighted average cost methods.

Special Collections
The University does not capitalize its special collections because the items are held for educational and research purposes and not for financial gain. The items are preserved, unencumbered, and protected. It is the University's policy to acquire other items to further or enhance collections with any proceeds from the disposal of special collection items.

Compensated Absences
Compensated absences consist of vacation leave and compensatory time earned by employees based on services already rendered. Employees may accumulate up to 264 hours of vacation depending on years of service and full-time equivalent employment status, but any vacation hours in excess of the maximum amount that are unused at December 31 are forfeited. Upon termination of employment, all unused vacation benefits not exceeding 176 hours (annual accrual amount), depending on years of service and full-time equivalent employment status, and compensatory time are paid to employees. Accordingly, vacation benefits and compensatory time are accrued as a liability in the financial statements.

Generally, sick leave benefits provide for ordinary sick pay and are cumulative but are forfeited upon termination of employment. Because sick leave benefits do not vest with employees, a liability for sick leave benefits is not accrued in the financial statements. However, upon retirement, employees who have accumulated at least 500 hours of sick leave are paid a formulated benefit amount. The University makes contributions each pay period to the State's Retiree Accumulated Sick Leave Fund and the State makes benefit payments directly to the retired employees from the fund. Consequently, the University has not accrued a liability for these sick leave benefits.

Investment Income
Investment income is composed of interest, dividends, and net changes in fair value of applicable investments.

Capital Assets
Capital assets are reported at actual cost. Donated assets are reported at estimated fair value at the time received. Capitalization thresholds, depreciation methods, and estimated useful lives of capital assets reported in the financial statements are as follows:

	Capitalization Threshold	Depreciation Method	Estimated Useful Life
Building improvements	$5,000	Straight Line	20 years
Buildings	All	Straight Line	40 years
Infrastructure	All	Straight Line	20-40 years
Land	All	None	
Equipment	2,500	Straight Line	5-15 years
Library books and media	All	Straight Line	10 years

Scholarship Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. A scholarship discount and allowance is the difference between the stated charge for goods and services provided by the University and the amount that is paid by students or third parties making payments on behalf of the student.

Accordingly, some types of student financial aid such as Pell grants and scholarships awarded by the University are considered to be scholarship allowances. These allowances are netted against tuition and fees and certain auxiliary enterprise revenues in the statement of revenues, expenses, and changes in net assets.

Net Assets Restricted by Enabling Legislation

At June 30, 2006, the University reported restricted net assets of $37,164,305, of which $24,243,349 is restricted by enabling legislation.

Note 2—Cash and Investments

Arizona Revised Statutes (A.R.S.) § 15-1668 require that deposits of the University not covered by federal deposit insurance, be secured by government bonds or by a safekeeping receipt of the institution accepting the deposit. Further, policy regarding deposits is provided by the Arizona Board of Regents (ABOR). Deposits can be made only at depository banks approved by the Board. A.R.S. and ABOR policies constitute the University's policy regarding custodial credit risk for deposits.

There is no statutory requirement that govern university investment activities. A.R.S. § 15-1625 gives the ABOR jurisdiction and control over the universities, and A.R.S. § 15-1626 allows ABOR to authorize the universities to adopt regulation, policies, rules, or measures as deemed necessary.

ABOR investment policies require that the University invest only in the State Treasurer's Local Government Investment Pool, collateralized time certificates of deposit and repurchase agreements, U.S. Treasury securities, and obligations of other agencies sponsored by the federal government. In addition, ABOR has authorized the University to establish an investment committee. The investment committee establishes investment policies and makes investment decisions. ABOR policies guide the investment committee decisions and constitute the University's investment policy.

Gifts and endowments monies are invested in accordance with conditions stipulated by the donor.

The bond indentures constitute the investment policy for University monies held with bond trustees. The bond indentures authorize the bond trustees to invest in obligations of or guaranteed by the federal government or any agency or instrumentality thereof, municipal obligations, collateralized certificates of deposit with federally insured banks, trust companies, savings and loan associations within the State of Arizona, or repurchase agreements.

Deposits

At June 30, 2006, cash on hand was $51,919, the carrying amount of the University's deposits was $616,059 and the bank balance was $1,595,989. Beyond the requirements established by A.R.S. and ABOR, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2006, $1,495,989 of the University's bank balance was uninsured with collateral held by the pledging financial institution.

Investments

	Amount
State Treasurer's investment pool	$ 37,239,384
U.S. agency securities	41,642,074
Student Financial Aid Trust Fund	9,158,471
Bond Trustee Funds:	
Government Money Market Mutual Fund	57,215,939
State Treasurer's investment pool	572,937
Investments with NAU Foundation	5,111,345
	$ 150,940,150

The State Board of Investment provides oversight for the State Treasurer's investment pools, and the Local Government Investment Pool Advisory Committee provides consultation and advice to the

Credit Risk

Beyond the requirements established by ABOR, the University does not have a formal policy with respect to credit risk. At June 30, 2006, credit risk for the University investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard and Poors	$ 41,642,074
State Treasurer's investment pool	unrated	N/A	37,239,384
Student Financial Aid Trust Fund, debt securities	unrated	N/A	2,319,246
Bond Trustee Funds:			
Government Money Market Mutual Fund	AAA	Standard and Poors	57,215,939
State Treasurer's investment pool	unrated	N/A	572,937
Investments with NAU Foundation	unrated	N/A	5,111,345
			$ 144,100,925

Treasurer. The fair value of the University's investment in the pool approximates the value of the University's pool shares and the University's shares are not identified with specific investments.

U.S. agency securities include, Federal Home Loan Mortgage Corporation, the Federal Home Loan Bank, Federal Farm Credit Bank, and the Federal National Mortgage Association securities.

The Student Financial Aid Trust Fund was established in accordance with A.R.S. §15-1642 for the purpose of providing aid to students with verifiable financial need. The three state universities participate in the Trust Fund, which is held with and managed by the University of Arizona. The University's ownership interest is recorded in the University of Arizona's records.

Trust agreements between the University and the NAU Foundation, Inc. authorize the Foundation to invest certain University restricted and endowment monies according to the Foundation's established investment policies and procedures. The University's portion is not identified with specific investments. The University's ownership interest is recorded in the Foundation's records.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the University will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The University does not have a formal policy in regards to custodial credit risk. At June 30, 2006, the University had $41,642,074 of U.S. agency securities that were uninsured and held by the counterparty not in the University's name and $57,215,939 of mutual funds in trustee accounts that were uninsured and held by the counterparty not in the University's name.

Concentration of Credit Risk

The University does not have a formal policy in regards to concentration of credit risk. The University places no limit on the amount that the University may invest in any one issuer. Five percent or more of the University's investments at June 30, 2006, were in Federal Home Loan Bank securities and Federal Home Loan Mortgage Corporation securities. These investments were 13.69 percent, and 7.67 percent, respectively, of the University's total investments.

Interest Rate Risk

The University does not have a formal policy in regards to interest rate risk.

		Maturity			
Investment Type	Fair Value	Less Than 1 Year	1-5 Years	6-10 Years	More than 10 Years
State Treasurer's investment pool	$ 37,812,321	$ 37,812,321			
U.S. agency securities	41,642,074	24,638,750	$ 17,003,324		
NAU Foundation	5,111,345	556,114	2,940,557	$ 1,499,669	$ 115,005
Student Financial Aid Trust Fund	2,319,246			2,319,246	
Government Money Market Mutual Fund	57,215,939	57,215,939			
Total	$ 144,100,925	$ 120,223,124	$ 19,943,881	$ 3,818,915	$ 115,005

A reconciliation of cash, deposits, and investments to amounts shown on the Statement of Net Assets is as follows:

Cash, deposits and investments:

Cash on hand	$ 51,919
Cash in bank	616,059
Total investments	150,940,150
	$ 151,608,128

Statement of Net Assets:

Cash and cash equivalents	$ 38,549,452
Current investments	24,638,750
Restricted cash and investments held by trustee for capital projects	57,788,876
Noncurrent investments	17,069,661
Endowment investments	13,561,389
	$ 151,608,128

Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Retirements	Transfers	Balance June 30, 2006
Capital assets not being depreciated:					
Land	$ 5,598,637		$ 1,000		$ 5,597,637
Construction in progress	34,807,074	$ 68,042,186	9,875	$ (45,487,550)	57,351,835
Total capital assets not being depreciated	40,405,711	68,042,186	10,875	(45,487,550)	62,949,472
Capital assets being depreciated:					
Infrastructure	52,977,202	168,406		1,065,053	54,210,661
Buildings	288,375,885	1,107,105	410,139	44,422,497	333,495,348
Equipment	76,848,916	5,212,430	4,718,564		77,342,782
Library books and media	45,681,678	935,822	53,169		46,564,331
Total capital assets being depreciated	463,883,681	7,423,763	5,181,872	45,487,550	511,613,122
Less accumulated depreciation for:					
Infrastructure	20,495,423	1,497,522			21,992,945
Buildings	132,222,559	8,129,073	378,619		139,973,013
Equipment	60,395,931	4,307,933	4,525,704		60,178,160
Library books and media	38,044,169	1,872,431	53,169		39,863,431
Total accumulated depreciation	251,158,082	15,806,959	4,957,492		262,007,549
Total capital assets being depreciated, net	212,725,599	(8,383,196)	224,380	45,487,550	249,605,573
Capital assets, net	**$ 253,131,310**	**$ 59,658,990**	**$ 235,255**	**$ –**	**$ 312,555,045**

The estimated cost to complete construction in progress at June 30, 2006, totaled $39,364,806.

Note 4—Long-Term Liabilities

Long-term liability activity for the year June 30, 2006, was as follows:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006	Due Within One Year
Long-term obligations	$ 2,018,795		$ 348,071	$ 1,670,724	$ 316,765
Capital leases	13,225,000	$	105,000	13,120,000	120,833
Certificates of participation	37,585,000	52,700,000		90,285,000	
Revenue and housing bonds payable	126,860,000	15,255,000	10,310,000	131,805,000	10,370,000
Less deferred amount on refunding	(1,823,914)		(266,217)	(1,557,697)	(266,217)
Discounts/premiums	4,037,928	1,158,046	297,526	4,898,448	301,251
Total long-term liabilities	**$181,902,809**	**$ 69,113,046**	**$ 10,794,380**	**$240,221,475**	**$ 10,842,632**

Bonds - The University's bonded debt consists of various issues of student housing and system revenue bonds that are generally callable with interest payable semiannually. Bond proceeds primarily pay for acquiring, constructing or renovating capital facilities. System revenue bonds are repaid from pledged gross revenues that primarily consist of student tuition and fees, and certain auxiliary revenues.

Bonds payable at June 30, 2006, are as follows:

Student housing bonds (2 issues) - 5.5 percent to 6.1 percent, principal payable annually on April 1 through 2009, revenues of various housing projects pledged for payment	$ 425,000
System revenue bonds, Series of 1997 - 6.5 percent, principal maturing serially on June 1, 2009 and 2010, secured by a first lien on certain gross revenues, on parity with the Series 2002 system revenue refunding bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, and the Series 2005 system revenue bonds	$ 5,645,000
System revenue refunding bonds, Series of 2002 - 3.0 percent to 4.0 percent, principal maturing serially on June 1 through 2008, secured by a first lien on certain gross revenues, on parity with the Series 1997 system revenue bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, and the Series 2005 system revenue bonds	$ 16,030,000
System revenue bonds, Series of 2002 - 3.0 percent to 5.125 percent, principal maturing serially on June 1 through 2034, secured by a first lien on certain gross revenues, on parity with the Series 1997 system revenue bonds, Series 2002 system revenue refunding bonds, Series 2003 system revenue bonds, Series 2004 system revenue and refunding bonds, and the Series 2005 system revenue bonds	$ 25,635,000
System revenue bonds, Series of 2003 - 2.5 percent to 5.5 percent, principal maturing serially on June 1 through 2034, secured by a first lien on certain gross revenues, on parity with the Series 1997 system revenue bonds, Series 2002 system revenue refunding bonds, Series 2002 system revenue bonds, and Series 2004 system revenue and refunding bonds, and the Series 2005 system revenue bonds	$ 30,350,000
System revenue and refunding bonds, Series of 2004 - 3.0 percent to 5.25 percent, principal maturing serially on June 1 through 2034, secured by a first lien on certain gross revenues, on parity with the Series 1997 system revenue bonds, Series 2002 system revenue refunding bonds, Series 2002 system revenue bonds, and Series 2003 system revenue bonds, and the Series 2005 system revenue bonds	$ 38,465,000
System revenue bonds, Series of 2005 - 3.0 percent to 5.125 percent, principal maturing serially on June 1 through 2040, secured by a first lien on certain gross revenues, on parity with the Series 1997 system revenue bonds, Series 2002 system revenue refunding bonds, Series 2002 system revenue bonds, Series 2003 system revenue bonds, and the Series 2004 system revenue and refunding bonds.	$ 15,255,000
	$ 131,805,000

The following schedule details debt service requirements to maturity for the University's bonds payable at June 30, 2006.

	Revenue and Housing Bonds	
	Principal	Interest
Year Ending June 30,		
2007	$ 10,370,000	$ 6,252,270
2008	9,555,000	5,861,605
2009	4,715,000	5,499,120
2010	4,820,000	5,255,170
2011	5,025,000	5,003,370
2012-16	28,645,000	21,540,834
2017-21	17,675,000	15,246,534
2022-26	15,830,000	11,375,791
2027-31	17,685,000	7,281,942
2032-36	14,305,000	2,465,112
2037-40	3,180,000	417,688
Total	$131,805,000	$ 86,199,436

Bonds
On October 19, 2005, the University sold System Revenue Bonds Series 2005 for $15,255,000 dated November 1, 2005. The 2005 Bonds include $6,280,000 of serial bonds with interest rates ranging from 3.00% to 4.50% and maturity dates ranging from June 1, 2007 to June 1, 2026. The 2005 Bonds also include $8,975,000 of term bonds, with interest rates ranging from 4.60% to 5.125% and maturing on June 1, 2030, 2035, and 2040. The 2005 Bonds were sold with net original issue discount of $10,659. The University realized net proceeds of 15,000,286 after payment of $244,055 for issuance costs, underwriter discounts, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The net proceeds of $15,000,286 are being used to finance a new parking garage and enclosed pedestrian bridge on the University's Mountain Campus.

In prior years, the University defeased certain revenue bonds by either placing the proceeds of new bonds, or cash and investments accumulated in a sinking fund, in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the University's financial statements. At June 30, 2006, $25,425,000 of such bonds outstanding are considered defeased.

Certificates of Participation
On July 27, 2005, the University issued Certificates of Participation, Series 2005 for $40,255,000, dated August 1, 2005. The Series 2005 Certificates included $31,455,000 of serial certificates with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from September 1, 2007 to September 1, 2028. The Series 2005 Certificates also included $8,800,000 of term certificates with interest rates ranging from 4.75% to 5.00% and maturing on September 1, 2020 and September 1, 2030. The 2005 Certificates were issued at a net issue premium of $1,158,046. The University realized net proceeds of $40,763,246 after payment of $649,800 for issuance costs, underwriters discount, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The net proceeds are being used to finance the Laboratory Facility building and the North Campus Research Infrastructure project.

On June 7, 2006, the University issued Certificates of Participation, Series 2006 for $12,445,000, dated June 1, 2006. The Series 2006 Certificates included $9,390,000 of serial certificates with interest rates ranging from 4.00% to 4.40% and maturity dates ranging from September 1, 2007 to September 1, 2026. The Series 2006 Certificates also included a $3,055,000 of term certificate with an interest rate of 4.50% and maturing on September 1, 2030. The 2006 Certificates were issued at a net issue discount of $168,982. The University realized net proceeds of $12,003,973 after payment of $272,045 for issuance costs, underwriters discount, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The net proceeds are being used to finance the Arizona Western NAU Yuma Research Facility project, and the Utility Infrastructure project.

Capital Leases
On May 19, 2005, the University entered into a lease agreement with Pine Ridge Village/Campus Heights, LLC (PRV/CH). The Company is a subsidiary of the Northern Arizona Capital Facilities Finance Corporation (NACFFC). During the 28-year lease term, the University will make lease payments on two apartment-style student housing complexes, Pine Ridge Village (PRV), an existing complex, and McKay Village (MV), a complex under construction. The University recorded a capital lease of $13.2 million in fiscal 2005 for the PRV complex. The University will record a capital lease of approximately $22.7 million for the MV complex in fiscal year 2007 when construction is completed. Cash outflows for MV related lease payments are not scheduled to begin until fiscal year 2007.

Base lease payments for both housing complexes are tied to the variable rate interest payments on the Variable Rate Demand Revenue Bonds, Series 2005 issued by PRV/CH. The interest on these bonds is adjusted weekly to the Bond Market Association Municipal Index. However, through an interest rate swap agreement, interest payments on the bonds are fixed for the first 10 years at 3.161%. Subsequent years' interest payments were calculated based on the actual variable rate of 3.99% as of June 30, 2006. A capitalized interest account for the MV complex was funded to cover MV-related bond payments through completion of construction.

Minimum lease payment commitments for the PRV complex, including interest reimbursement to the lessor at a fixed rate for the first ten years and at the variable rates in effect at June 30, 2006, for all subsequent years consisted of the following:

The following schedule details debt service requirements to maturity for the University's certificates of participation payable at June 30, 2006.

	Certificates of participation Principal	Interest
Year ended June 30,		
2007	$ –	$ 3,917,180
2008	2,255,000	4,016,660
2009	2,325,000	3,947,085
2010	2,390,000	3,872,568
2011	2,480,000	3,791,930
2012-16	13,930,000	17,431,200
2017-21	17,215,000	14,146,403
2022-26	21,855,000	9,484,747
2027-31	27,835,000	3,516,267
Total	$ 90,285,000	$ 64,124,040

Year ended June 30,	Capital Lease Payments (in Thousands)
2007	$ 525
2008	541
2009	552
2010	568
2011	582
2012-16	3,264
2017-21	4,068
2022-26	4,509
2027-30	4,986
2031-33	2,135
Total minimum lease payments	21,730
Less amount representing interest	8,610
Present value of minimum lease payments	$ 13,120

Note 5—Retirement Plans

The University participates in one cost-sharing multiple-employer defined benefit pension plan and five defined contribution pension plans.

The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan. Benefits are established by state statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board, in accordance with the provisions of A.R.S. Title 38, Chapter 5, Article 2. The ASRS issues a Comprehensive Annual Financial Report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, P.O. Box 33910, Phoenix, Arizona 85012-3910, or calling (602) 240-2000 or (800) 621-3778.

For the year ended June 30, 2006, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 7.40 percent (6.90 percent retirement and 0.50 percent long-term disability) of the members' annual covered payroll. The University's retirement contributions to the ASRS for the years ended June 30, 2006, 2005, and 2004 were $4,394,305, $2,964,056 and $2,822,407, respectively, which were equal to the required contributions for the year. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates.

In accordance with A.R.S. § 15-1628, University faculty, academic professionals, and administrative officers have the option to participate in defined contribution pension plans. These plans are administered by independent insurance and annuity companies approved by the Arizona Board of Regents. For the year ended June 30, 2006, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), Fidelity Investments Tax-Exempt Service Company (Fidelity), Aetna Life Insurance and Annuity Company (Aetna), and Vanguard Group (Vanguard) were approved by the Board. Benefits under these plans depend solely on the contributed amounts and the returns earned on investments of those contributions. The Aetna and Vanguard plans were no longer offered as of January 1, 2006. Contributions made by members vest immediately, and University contributions vest after five years of benefit eligible employment. The distribution of member contributions and associated investment earnings are made in accordance with the member's contract with the applicable insurance and annuity company. University contributions and associated investment earnings must be distributed to the member in the form of an annuity paid over a period that is not less than the member's life. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates. For the year ended June 30, 2006, plan members and the University were each required by statute to contribute an amount equal to 7 percent of a member's compensation. Contributions to Retirement Plans for the year ended June 30, 2006, are summarized below.

Contributions to Retirement Plans
for the year ended June 30, 2006, are summarized below.

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	$ 2,841,270	$ 2,841,270	$ 5,682,540
VALIC	$ 602,524	$ 602,524	$ 1,205,048
Fidelity	$ 858,068	$ 858,068	$ 1,716,136
Aetna	$ 51,848	$ 51,848	$ 103,696
Vanguard	$ 85,022	$ 85,022	$ 170,044

Note 6—Risk Management

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in a self-insurance program administered by the State of Arizona, Department of Administration, Risk Management Section. A.R.S. §41-621 et seq. provides that losses eligible for coverage and which are not covered by insurance will be paid by the State from the self-insurance program or by a future appropriation from the State Legislature. Loss risks which are not covered by Risk Management and where the University has no insurance coverage, are losses that arise from contractual breaches and are directly attributable to an act or omission, and determined to be a felony by a court of law. With this exception, the University has no significant risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona Comprehensive Annual Financial Report.

Note 7—Expense Classification

The University's operating expenses by natural and functional classification are summarized in the table below:

For the Year Ended June 30, 2006 • Natural Classification

	Personal Services and Benefits	Operations	Scholarships	Depreciation	Total
Functional Classification:					
Instruction	$ 89,991,042	$ 13,447,532			$ 103,438,574
Research	15,651,692	5,580,324			21,232,016
Public service	12,684,508	13,280,900			25,965,408
Academic support	17,874,273	8,020,700			25,894,973
Student services	15,605,337	5,782,483			21,387,820
Institutional support	23,840,509	9,027,730			32,868,239
Operation and maintenance of plant	7,285,366	9,113,261			16,398,627
Scholarships and fellowships			$ 11,796,548		11,796,548
Auxiliary enterprises	12,397,492	23,579,060			35,976,552
Depreciation				$ 15,806,960	15,806,960
Total	$ 195,330,219	$ 87,831,990	$ 11,796,548	$ 15,806,960	$ 310,765,717

Note 8—Other Matters

Subsequent Event

On September 1, 2006, the University entered into a ground lease with North Campus Facilities LLC,for construction and equipping of an approximately 41,000-square-foot conference center and an approximately 344-space parking facility on the campus of NAU for use and operation by the University.

Tuition Lawsuit

In August 2003, four University of Arizona students filed a lawsuit against the Arizona Board of Regents and the State of Arizona in Pima County (Arizona) Superior Court. The complaint alleged that the tuition increase approved by the Board for the 2003-04 academic year violates the State's constitution. The plaintiff's requested that the suit be certified as a class action on behalf of all students at the three universities governed by the Board. The complaint also asserted that the State has not provided funding to the three universities governed by the Board at the level required by the state constitution. The complaint sought (i) a declaratory judgement that the actions of each of the defendants violate the state constitution, (ii) preliminary and permanent injunctive relief to prevent the Board from imposing the tuition increase, and to compel repayment of any amounts already collected, and (iii) preliminary and injunctive relief ordering the State to set in place a plan to provide increased funding for maintenance, operation, and improvement of the State's universities. In March 2004, the Superior Court granted the Board's and the State's motion to dismiss the case. In the related minute entry, the court held that in the exercise of its legislative and administrative function, which includes setting tuition levels for the State's three universities, the Board is absolutely immune from suit and that the conduct of the business of the State Legislature is absolutely immune from suit. On March 15, 2004, the plaintiffs filed a notice of appeal with the Arizona Court of Appeals. On February 15, 2005, Oral Argument was presented before the Court of Appeals. The Arizona Court of Appeals rendered a decision on November 14, 2006, reversing the Superior Court's decision to dismiss and remanding the case back to the Superior Court. The Arizona Board of Regents is reviewing this decision and its options. Management believes that the claim can be adequately and successfully defended, but is not able to predict at the present time what the ultimate outcome of the matter will be or how the case may affect the financial condition of the University. An adverse judgment in the litigation would be covered by the statutory self-insurance program under the State of Arizona, Department of Administration—Risk Management.

Drury Hotel Lease

On May 19, 2006, the University signed a lease agreement with Drury Hotels to build a 150-room hotel on the northernmost point of the Flagstaff campus. The agreement provides for a 30-year ground lease with two 10-year renewal options for the hotel. NAU will receive a percentage of the hotel's annual gross revenue for rent above an annual base rent of $60,000.

Note 9—Discretely Presented Component Units Disclosures

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Northern Arizona University Foundation, Inc. (Foundation) and Northern Arizona Capital Facilities Finance Corporation (NACFFC) including its Pine Ridge Village/Campus Heights LLC (limited liability company) subsidiary, have been prepared on the accrual basis.

Financial Statement Presentation
Both the Foundation and the NACFFC follow the Statement of Financial Accounting Standards Board (FASB) No. 117, "Financial Statements of Not-for-Profit Organizations." Under FASB Statement No. 117, the Foundation and the NACFFC are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

- Unrestricted net assets – include assets and contributions that are not restricted by donors or for which such restrictions have expired.
- Temporarily restricted net assets – include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundation), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified as temporarily restricted if restrictions are satisfied in the same reporting period in which the contributions are received.
- Permanently restricted net assets – include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity and only the board-approved payout be made available for program operations in accordance with donor restrictions.

Cash and Cash Equivalents
Highly liquid investments with an original maturity of three months or less are classified as cash equivalents and are stated at fair value.

Investments
The Foundation - Investments, consisting primarily of equity securities, U.S. government securities, and corporate bonds, with readily determinable market values are measured at fair value as of year-end. Donated investments are recorded at their fair values, as determined on the date of donation. Investment income or loss (including realized gains and losses on investments, interest and dividends) and unrealized gains, and losses on investments are recognized in the statement of activities. For management efficiency, investments of the unrestricted and restricted net assets are pooled, except for certain net assets that the board of directors or the donors have designated to be segregated and maintained separately.

Revenue Recognition
The Foundation - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at rates commensurate with the risks involved. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment including such factors as prior collection history.

Contributions received for prospective endowments that have not yet met the minimum requirements for acceptance as an endowment are accumulated in temporarily restricted accounts. The accumulated contributions are transferred to permanently restricted endowment accounts when the minimum requirements are fulfilled.

The NACFFC recognizes rent and lease income as payments become due. Payments received in advance will be deferred until earned.

Net investments in Sales-Type Financing Leases
NACFFC - Net investments in sales-type financing leases are stated at the sum of the minimum lease payments less unearned income. Unearned income is amortized over the lease terms, which approximate the related bond terms. Under the sales-type lease, minimum lease payments are based on a variable interest rate determined on a weekly basis. Therefore, the payments and unearned income are periodically revalued to reflect current rates.

No valuation allowance has been established as title to the assets associated with the lease would be transferred back to the Pine Ridge Village/Campus Heights LLC in the event of default.

Property, Plant and Equipment
Property, plant, and equipment are recorded at cost or fair value at the date of donation. Replacements, maintenance and repairs that do not improve or extend the lives of the assets are expensed during the period incurred. Assets are depreciated on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	28 years
Furniture and equipment	5-10 years

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Tax Status

The Foundation is a public foundation and is exempt from Federal and State income taxes under Section 501 (c) (3) of the Internal Revenue Code. Accordingly, no provision for Federal or State taxes has been made. Continued tax-exempt status is contingent on future operations being in compliance with the Internal Revenue Code.

The NACFFC is exempt from taxes under the provisions of Section 501(c) (4) of the Internal Revenue Code.

Bonds Issuance Costs

NACFFC - Issuance costs of $698,762 relating to the Series 2005 Bonds are being amortized on a straight-line basis over the life of the Series 2005 Bonds. Amortization expense for the year ended June 30, 2006, was $24,956 for issuance costs related to the Series 2005 bonds.

B. RESTATEMENT OF NET ASSETS

During fiscal year 2006, management of the Foundation determined that there was an unconditional promise to give received from a donor in a prior year that was not properly recorded when received. As of the beginning of fiscal year ended June 30, 2005, there was an outstanding promise to give of $293,287. As a result, the Foundation has restated net assets on the 2005 statement of activities to properly account for this balance. As a result of this change, the June 30, 2005 unconditional promises to give balance and the permanently restricted net assets balance increased by $293,287.

C. ASSETS HELD BY TRUSTEE

The Foundation has an irrevocable right to receive income earned from the trusts' assets held in perpetuity. The Foundation will never receive the trusts' assets. The trust agreements are administered and related assets are invested by an individual or organization other than the Foundation. Initial recognition and subsequent adjustments to the assets carrying value are recognized as public contributions and changes in value of perpetual trusts, respectively, and are classified as permanently restricted. Income earned is reported as increases in unrestricted, temporarily or permanently restricted net assets depending on the nature of the restrictions of each trust.

NACFFC - Pursuant to the terms of the Trust Indenture, relating to the Series 2005 Bonds, proceeds of the Series 2005 Bonds were deposited into certain funds and accounts established with the Trustee. Assets held by Trustee consist of various reserves and operating accounts required by the Trust Indenture and totaled $3,661,822 at June 30, 2006. These assets are invested in 100% treasury money market funds. Currently all accounts in use by the Trustee are restricted as to use.

D. INVESTMENTS

The fair value and cost of the Foundation's investments at June 30, 2006 is as follows:

	Fair Value	Cost
U.S. Government/agency bonds	$ 12,732,014	$ 13,498,364
Corporate bonds	5,522,686	5,652,450
Common stock	25,418,048	21,689,970
Certificates of deposit	105,950	100,000
International equity funds	5,338,254	4,327,964
Real estate investment trust	418,806	368,935
	$ 49,535,758	$ 45,637,683

Investments include funds held for the custody of others of $4,672,151 at June 30, 2006.

The realized gains and unrealized gains on investments were $563,030,and $893,602 for the year ended June 30, 2006. Investment expenses of $129,154 for the year ended June 30, 2006 have been netted against investment earnings in the statement of activities.

The fair value and cost of the NACFFC's investments at June 30, 2006 is as follows:

	Fair Value	Cost
Investments held by Trustee		
U.S. Treasury money market funds	$ 3,661,822	$ 3,661,822
	$ 3,661,822	$ 3,661,822

E. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are comprised of construction in progress, furniture and equipment and are reported net of accumulated depreciation. Construction in progress is not depreciated. Balances as of June 30, 2006 are presented as follows:

FOUNDATION

	Cost or Donated Value	Accumulated Depreciation	Net Assets
Furniture and equipment	$ 13,280	$ 12,036	$ 1,244

NACFFC

Construction in progress	$ 17,201,407	$ 0	$ 17,201,407

F. LEASE PURCHASE AGREEMENT

On May 19, 2005, NAU entered into a lease purchase agreement with the LLC. During the 28 year lease term, the University will make lease payments on two apartment style student housing complexes, Pine Ridge Village, an existing complex, and McKay Village, a complex under construction. The LLC recorded a sales-type lease receivable of $13,225,000 in fiscal year 2005 for the Pine Ridge complex. The agreement also provides for NAU's lease purchase of the McKay Village complex for approximately $22,685,000 upon its completion in fiscal year 2007. Upon expiration of the lease, the real property will become the sole property of NAU without further cost.

Base lease payments for both housing complexes are tied to the variable rate interest payments on the Series 2005 Bonds issued by the LLC. However, through the Swap Agreement, interest payments on the Series 2005 Bonds are fixed for the first 10 years at 3.161%. A capitalized interest account for the McKay Village project was funded to cover McKay Village related bond payments through the completion of construction. As a result, cash flows for the McKay Village related lease payments are not scheduled to begin until the end of fiscal year 2007. Additional rents are provided for in the lease purchase agreement to cover costs incurred by Pine Ridge/Campus Heights LLC for bond related costs (including remarketing fees and standby bond purchase commitment fees) and professional expenses. These rents are recognized when the qualifying expense is incurred.

Components of the net investment in the lease (based on interest at the variable rates in effect at June 30, 2006) are as follows:

Total minimum lease payments to be received	$ 21,583,284
Less: Unearned income	(8,472,867)
Net investment in sales-type lease	$ 13,110,417

At June 30, 2006, minimum lease payments are as follows:

Year ended June 30,	Amount
2007	$ 524,493
2008	540,257
2009	551,308
2010	566,382
2011	581,240
Thereafter	18,819,604
	$ 21,583,284

G. BONDS PAYABLE

The NACFFC through its Pine Ridge Village/Campus Heights LLC subsidiary, had the following bonds outstanding at June 30, 2006:

Variable Rate Demand Revenue Bonds, Series 2005 in the aggregate original principal amount of $35,910,000 dated May 19, 2005; interest payable monthly at a variable rate determined on a weekly basis, 3.99 percent at June 30, 2006; interest rate fixed through a swap agreement at 3.161 percent from July 1, 2005 through June 1, 2015; principal payable annually in various amounts beginning June 1, 2006 through June 1, 2033; secured by property, leases and revenues including the Trust Funds, excluding the Rebate Fund, under terms of the Trust Indenture.	$ 35,805,000
Less: Unamortized bond discount	(414,247)
Bonds payable, net	35,390,753
Less: current maturities	(460,000)
Bonds payable, noncurrent portion, net	$ 34,930,753

At June 30, 2006, maturities of bonds payable are as follows:

Year ending June 30,	
2007	$ 460,000
2008	355,000
2009	400,000
2010	455,000
2011	510,000
Thereafter	33,625,000
Total	$ 35,805,000

Interest expense related to bonds for 2006 was $1,143,377. This includes $37,797 under the terms of the swap agreement. Of this, $323,528 was capitalized. Amortization of the bond discount for 2006 was $15,390 and is included in interest expense in the accompanying financial statements.

The Pine Ridge Village/Campus Heights LLC issued the Series 2005 Variable Rate Demand Bonds (Series 2005 Bonds) for the purpose of financing the acquisition of the Pine Ridge Village Project from the NACFFC, and financing the development, construction, equipping and leasing of a new housing facility on the Flagstaff, Arizona campus of NAU for use by eligible tenants. The NACFFC used the Series 2005 Bond proceeds allocated for the acquisition of the Pine Ridge Village project to refund its outstanding Series 2001 bonds.

Swap Agreement

Pine Ridge Village/Campus Heights LLC entered into an interest rate swap arrangement dated May 26, 2005 that effectively fixed the interest rate on the demand revenue bonds at 3.161 percent. Under the swap agreement, Pine Ridge Village/Campus Heights LLC pays interest at the variable rate and receives interest at 70% of the one month LIBOR. An additional payment is made or received by the Pine Ridge Village/Campus Heights LLC to effectively fix the interest rate at 3.161. The notional amount of the contract as of June 30, 2006 is $35,805,000 and matures June 1, 2015. The notional amount under the swap agreement decreases as principal payments are made on the Series 2005 demand revenue bonds so that the notional amount equals the principal outstanding under the bonds.

Redemption Provisions

The Series 2005 Bonds, while in a weekly rate mode, are subject to redemption, at the option of Pine Ridge Village/Campus Heights LLC , on any business day, in whole or in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date. The bonds may be converted to a fixed rate mode at the election of Pine Ridge Village/Campus Heights LLC. If the bonds are converted to a fixed rate mode, the bonds can be redeemed, at the option of Pine Ridge Village/Campus Heights LLC, in whole or in part at any time, at a redemption price equal to the percentages of the principal amount of each Series 2005 bond or portion thereof to be redeemed, plus accrued interest as follows. (See page 30)

Number of years remaining to maturity at the date of Conversion	Number of years following conversion to the Fixed Rate Mode when the Series 2005 may be redeemed and redemption price	
	More than 10 but less than 11 years	More than 11 years
11 years or more	101%	100%
10 years but less than 11 years	100%	Not applicable
Less than 10 years	Not subject to redemption	

H. ASSETS HELD IN CUSTODY FOR OTHERS

The Foundation maintains certain asset balances on behalf of others, which consists of the following at June 30, 2006:

Cash	$ 195,399
Unconditional promises to give	290
Investments	4,672,151
Beneficial interest in perpetual trust	572,680
	$ 5,440,520

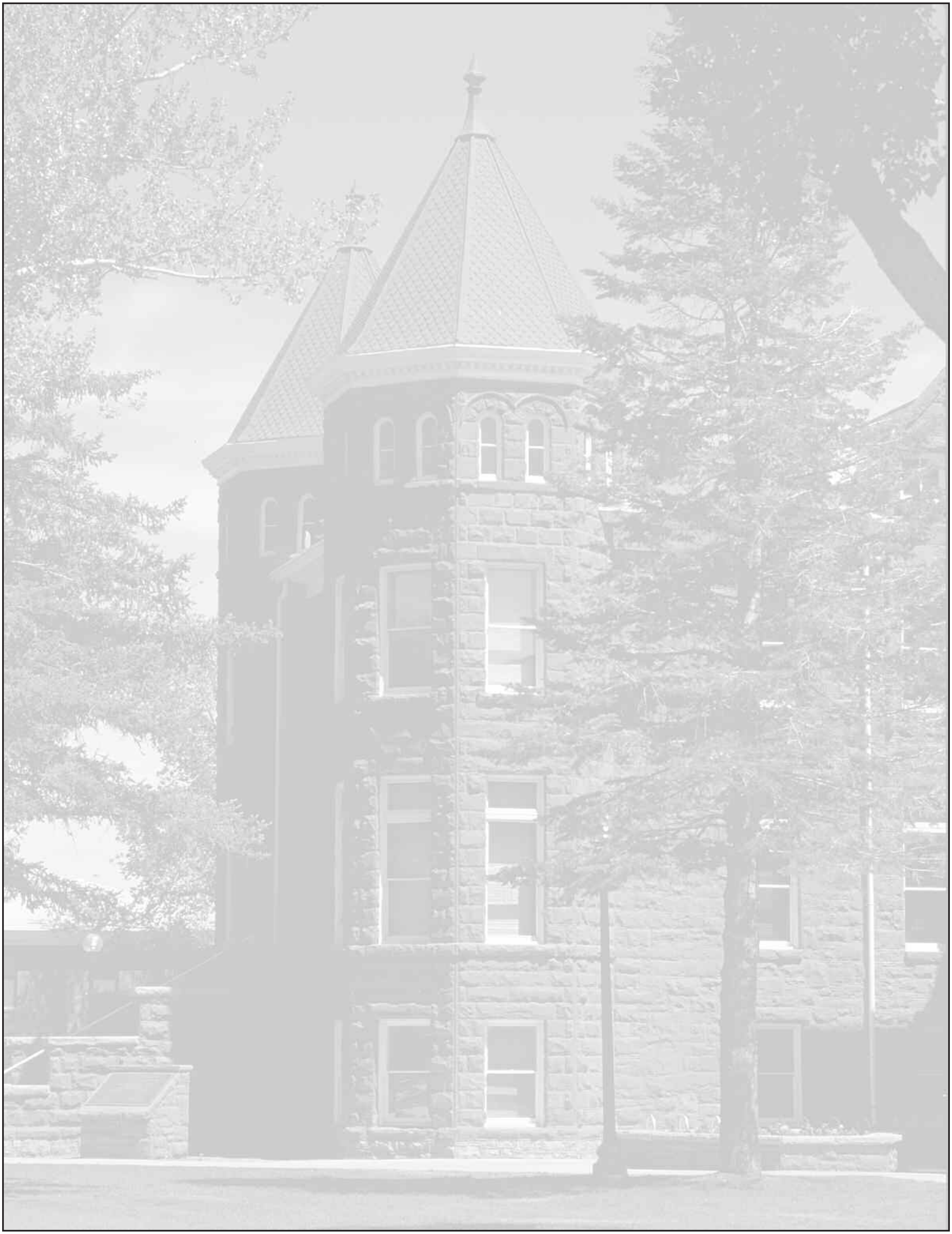
Assets held on behalf of:	
Northern Arizona University	$ 5,136,062
Parents' Association	192,908
Alumni Association	111,550
	$ 5,440,520

I. OTHER MATTERS

On May 3, 2005 the Pine Ridge Village/Campus Heights LLC entered into a construction agreement with Kitchell Contractors, Inc. of Arizona. The contract provides for the construction of the residential facility at the Campus Heights project. The anticipated cost of construction is estimated at $19,563,504 and a certificate of completion was issued on July 28, 2006. Draws are made upon certification of completion from the architect.

J. SUBSEQUENT EVENT

On July 26, 2006, North Campus Facilities LLC, a limited liability company of which the Corporation is the sole member, was organized to provide assistance to the Arizona Board of Regents (ABOR) with the financing, design, development, construction and equipping of an approximately 41,000-square-foot conference center and an approximately 344-space parking facility on the campus of NAU for use and operation by the University. On September 1, 2006, North Campus Facilities LLC entered into a ground lease with NAU and construction of the conference center and garage commenced in September, 2006. On September 19, 2006 lease revenue bonds were sold in the amount of $12,400,000 with an additional premium of $446,747. These bonds will mature over the next 30 years with fixed interest rates ranging between 4.00% and 5.00%.



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