NORTHERN ARIZONA UNIVERSITY

FINANCIAL REPORT 2006-2007

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This financial report is compiled and issued by the
Associate Vice President and 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, 2007, 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 included 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. 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 described in Note 1, the University's financial statements are intended to present the financial position, and the changes in financial position and, where applicable, cash flows 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, 2007, and the changes in financial position and, where applicable, cash flows 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, 2007, 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 described in Note 1, the University increased its capitalization threshold for equipment, which represents a change in the application of an 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.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Debbie Davenport
Auditor General

November 20, 2007

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, 2007. 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 noncurrent 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 $25.9 million from July 1, 2006 to June 30, 2007.

- Student tuition and fees increased 8.7 percent from the previous year or about $7.2 million.

- Government grants and contracts revenue increased $4.3 million or 8.4 percent from the prior year.

- Investment income increased 31.1 percent or $2.1 million from the previous year.

- State and capital appropriations increased by approximately $14.8 million from the prior year.

- Share of state sales tax - technology and research initiative funding, increased $5.1 million.

- During the fiscal year the University issued $42.3 million of system revenue and refunding bonds, at an average interest rate of 4.68 percent, to advance refund portions of the Series 2002 system revenue bonds and the Series 2003 system revenue bonds in order to take advantage of lower interest rates and realize debt service savings. (see Capital Assets and Debt Administration section).

- The University changed it capitalization threshold for equipment from $2,500 to $5,000. This caused beginning net assets to decrease by approximately $3.4 million.

- University cash and investments decreased by $21.8 million as bond proceeds were expended for capital projects from trustee funds.

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2007 and 2006 (in thousands), is as follows:

	2007	2006 as restated
Current assets	$ 117,048	$ 81,385
Noncurrent assets:		
Cash, cash equivalents, investments, and student loans receivable	25,714	79,441
Endowment investments	16,042	13,561
Capital assets – net of accumulated depreciation	366,207	309,140
Other noncurrent assets	432	57
Total noncurrent assets	408,395	402,199
Total assets	525,443	483,584
Long-term liabilities	252,201	240,222
Other liabilities	36,944	32,917
Total liabilities	289,145	273,139
Net assets	**$ 236,298**	**$ 210,445**

A review of NAU's Statement of Net Assets at June 30, 2007 and 2006 shows that the University's financial position continues to improve. In fiscal year 2007, the University increased its capitalization threshold for equipment from $2,500 to $5,000. The University's net assets reported as of June 30, 2006, have been decreased by approximately $3.4 million.

Current assets consist primarily of cash and investments, government grants and contracts receivable, and accounts receivable. Current assets increased $35.7 million due to increase in overall cash available to invest and an increase in student, departmental, and government and grant receivables. The student receivables are higher mainly due to an increase in overall student tuition and fees including increased participation in NAU payment plans. The departmental increase is due to the summer enrichment activities in the summer that cross between fiscal years. The summer enrichment program receivable was $465 thousand for June 30, 2007 and was collected in the Fiscal year 2008. The $5.5 million increase in government grants and contracts receivable is due to the increased levels of grant funding and activities. The increase includes South San Francisco Multi-Use Path, $794 thousand; Master Teacher Program, $265 thousand; ERI Goal 1: Cooperative Work Plan, $346 thousand; High Resolution Assays for Forensic Analysis of Biological Agents, $614 thousand; and Tribal Training Support for the American Indian Air Quality Training, $290 thousand.

Noncurrent assets increased by approximately $6.2 million over the prior year. The majority of the increases are as follows. Restricted cash and cash equivalents held by trustee for capital projects decreased by $43.5 million due to the University expending debt proceeds for capital projects. Capital assets, representing a majority of noncurrent assets, increased approximately $57.1 million over the fiscal year as the University continued its renovations including the completion of the new laboratory facility, the Applied Research and Development building, the addition of the McKay Village student apartments, campus infrastructure improvements, partial construction of a new residence hall, completion of a new parking structure, and other landscaping and signage (Wayfinding) projects. Other changes in non-current assets include an increase in the overall university endowment investments, including the student financial aid trust fund, of $2.5 million and a decrease in investments of $10.0 million. The changes in capital assets are discussed in more detail in the Capital Assets and Debt Administration section.

Long-term liabilities increased by $12.0 million as of June 30, 2007. 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 $4.0 million, from $32.9 million as of June 30, 2006 to $36.9 million as of June 30, 2007. This increase is mainly due to a $1.4 million increase in deferred revenue from Grants and Contracts, specifically the 2007 Aims Intervention & Dropout Prevention Program-Gear Up, $367 thousand; Governor's Master Teacher Program, $455 thousand; Community Service Grant, $148 thousand; Nexus Math/Science NAU K-12 Innovation Experience Program, $180 thousand; Teacher As Investigator: K-12 Teacher Research Fellows Program, $133 thousand; and Arizona School Risk Retention Trust Service, $103 thousand (increase from fiscal year 2006) for a total of $1.4 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS

NET ASSETS

A summarized comparison of the University's net assets for the years ended June 30, 2007 and 2006 (in thousands), is as follows:

	2007	2006 as restated
Invested in capital assets, net of related debt	$ 126,930	$ 125,944
Restricted:		
Nonexpendable	18,851	16,971
Expendable	19,801	20,193
Unrestricted	70,716	47,337
Total net assets	**$ 236,298**	**$ 210,445**

Net assets at June 30, 2007 increased in total by $25.9 million or about 12.3 percent from 2006. This is a result of total combined sources of $367.0 million and total uses of $341.2 million. The University continues to grow its revenue sources and manage operational expenses resulting in net asset growth.

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, 2007 and 2006 (in thousands), is as follows:

	2007	2006
Operating revenues:		
Tuition and fees, net of scholarship allowances	$ 89,162	$ 82,011
Government grants and contracts	55,458	51,151
Auxiliary enterprises	38,612	38,442
Other	11,344	9,964
Total operating revenues	194,576	181,568
Nonoperating revenues:		
State appropriations	136,862	124,690
Share of state sales tax	16,913	11,861
Grants and contracts	5,534	5,464
Investment income	8,933	6,814
Other nonoperating revenues	977	
Total nonoperating revenues	169,219	148,829
Total revenues	363,795	330,397
Operating expenses:		
Educational and general	279,275	258,982
Auxiliary enterprises	33,491	35,977
Depreciation	17,867	15,807
Total operating expenses	330,633	310,766
Nonoperating expenses:		
Interest expense on capital asset related debt	10,506	10,043
Other nonoperating expenses	35	389
Total expenses	341,174	321,198
Increase before capital appropriations, grants and gifts and endowment additions	22,623	9,199
Capital appropriations, grants and gifts and endowment additions	3,232	1,216
Increase in net assets	**$ 25,853**	**$ 10,415**

REVENUES ANALYSIS

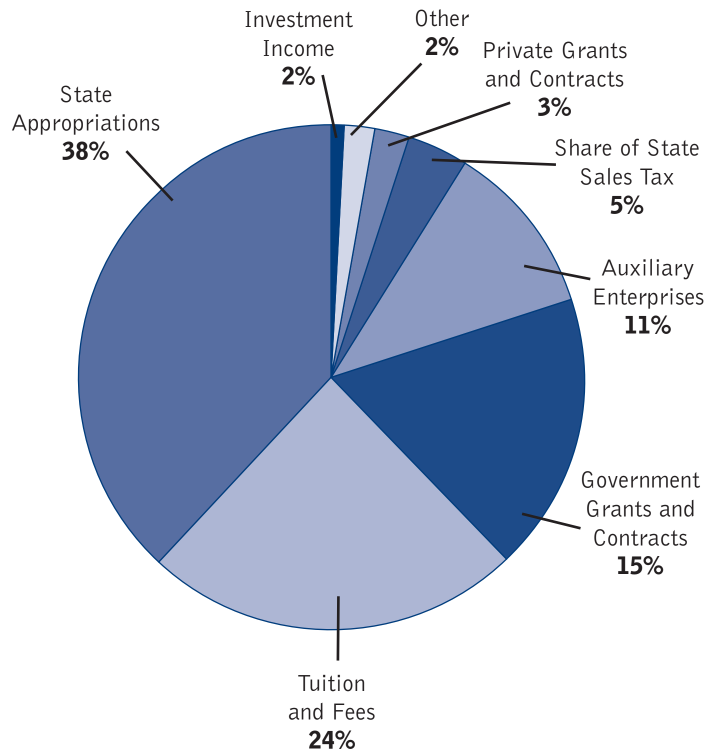
State appropriations and tuition and fees continue to be the major funding sources for current operations related to educational purposes. Operating revenues (not including state appropriations) increased 7.2 percent or about $13.0 million in fiscal year 2007. This increase is due mainly to additional tuition and fee revenue of $7.2 million and an increase of $4.3 million in government grants revenue. The tuition and fee revenue increase from fiscal year 2006 is mainly due to a board approved tuition rate increase and increased student enrollment. Government grants and contracts revenue increased due to increased grant award activity. Auxiliary enterprises revenues increased mainly in the area of residence life. Residence life increased revenues by $3.8 million as a result of an overall 6% board approved rate increase (excluding Pine Ridge Village) of $976 thousand, the rental of an additional 667 single occupancy spaces for $2.3 million and additional summer conference and summer session revenues of $552 thousand. The recording of rental revenues from the newly occupied McKay Village apartment complex accounted for about 400 of the additional 667 single occupancy rentals. Bookstore revenues decreased overall by $5.1 million due to the university outsourcing the entire bookstore operations. Nonoperating revenues including state appropriations increased $20.4 million. State and capital appropriations, accounting for a majority of the change, increased $14.8 million in 2007 over 2006. The increase in the appropriation is due to discretionary funds of $3.2 million, salary and employee related expenses increases of $7.1 million, a health insurance and retirement contribution increase of $3.0 million, and $1.2 million for the Arizona Financial Aid Trust Fund. The increase also includes a general appropriations increase of $500 thousand for the Water Institute and a reduction of $186 thousand for the 155 Credit Hours Legislation. The University also received a capital appropriation for building renewal of $2,647,200 in the fiscal year. Investment income increased $2.1 million due to more favorable interest rates and the University's increasing amount of investable cash. Share of state sales tax are revenues appropriated to the Arizona Board of Regents for the Technology and Research Initiative Fund (TRIF). Share of state sales tax revenues increased 42.6% or about $5.1 million during the year. Approximately half of that increase was due to funding that NAU was awarded and received from ABOR for Over Attainment funding and the other half was an increase over previous receipts due to increased sales tax activity at the State level.

EXPENSES ANALYSIS

Educational and general expenses continued to account for a majority of the operating expenses. Educational and general expenses increased in fiscal year 2007 by $20.3 million. Significant components of the increase within educational and general expenses were instruction, $13.1 million; public service, $1.5 million; student service, $2.5 million; operation of maintenance and plant, $1.5 million; and scholarships and fellowships, $1.2 million. In accordance with identified university priorities and strategic investment in faculty and staff retention, salary and benefit costs grew by $21.1 million funded by state appropriations as well as university targeted support on both state and local funds. Overall, employee related expenses increased from $45.3 million in fiscal year 2006 to $51.7 million in fiscal year 2007, a 14.1% increase. The increase in employee related expenses (ERE) of $6.4 million was due mainly from increases in health insurance costs of $3.7 million and an increase in retirement costs of $1.8 million. The increase in retirement costs is due to the increase in the Arizona State Retirement System (A.S.R.S.) rates from 6.9% to 8.6%. The $13.1 million increase in instruction was due to salary and benefit increases of $11.8 million and $1.3 million associated with increased services to support enrollment growth including additional faculty, support staff and operational dollars. The $1.5 million increase in public service was directly related to increased efforts in community service outreach and cooperative programs in public service endeavors including an increase in the Gear Up program. Student services expense increased by $2.5 million in fiscal year 2007 due to $1.3 million in salary and benefit increases, $600 thousand direct student recruitment initiatives, and the remaining to support enrollment growth. Operation and maintenance of plant increased by $1.5 million, due to an increase in salaries and wages and a $1.0 million increase in non capitalized equipment as a result of equipping the new Applied Research and Development Building and new laboratory facilities. Scholarship and fellowship expense increased by $1.2 million or about 10.5% over the fiscal year. This was mainly due to additional awards as a result of increased appropriation dollars from the Arizona Financial Aid Trust Fund (AFAT).

The decrease in auxiliary enterprises of $2.5 million was mainly due to the outsourcing of the university bookstore and the resulting decrease in the operational expenditures. Depreciation expense increased by $2.1 million or about 13.0% as construction completed and the University brought several new buildings on line.

Total Revenues
Fiscal Year 2007



Expenses - By functional classification

A comparative summary of the University's expenses by functional classification for the years ended June 30, 2007 and June 30, 2006, is as follows:

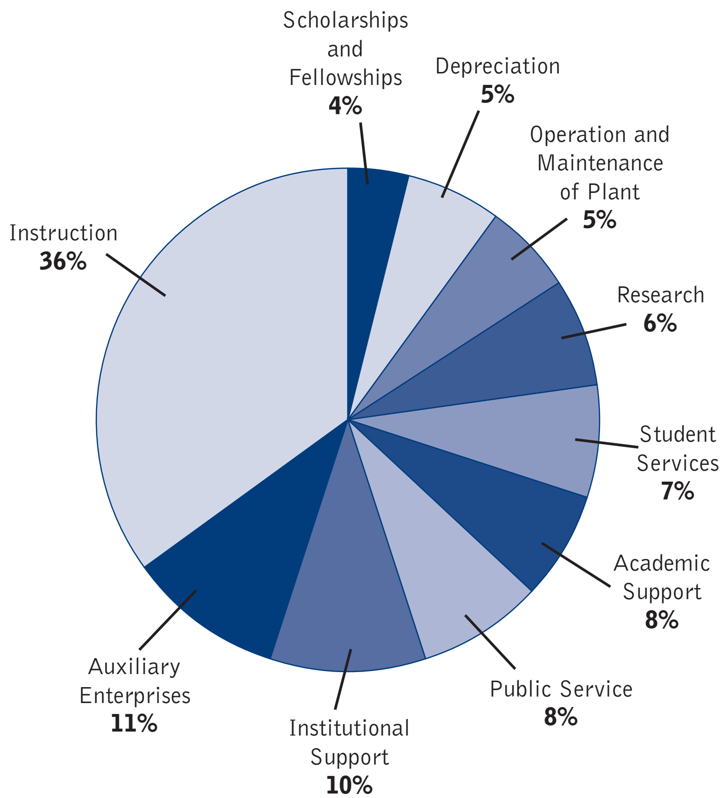
	2007	2006
Operating:		
Instruction	$ 116,547,826	$ 103,438,574
Research	21,352,577	21,232,016
Public service	27,508,601	25,965,408
Academic support	26,667,760	25,894,973
Student services	23,906,998	21,387,820
Institutional support	32,384,760	32,868,239
Operation and maintenance of plant	17,874,004	16,398,627
Scholarships and fellowships	13,031,632	11,796,548
Total educational and general expenses	279,274,158	258,982,205
Auxiliary enterprises	33,491,413	35,976,552
Depreciation	17,867,470	15,806,960
Total operating expenses	330,633,041	310,765,717
Nonoperating:		
Interest and other	10,540,639	10,432,798
Total Expenses	$ 341,173,680	$ 321,198,515

Expenses - By natural classification

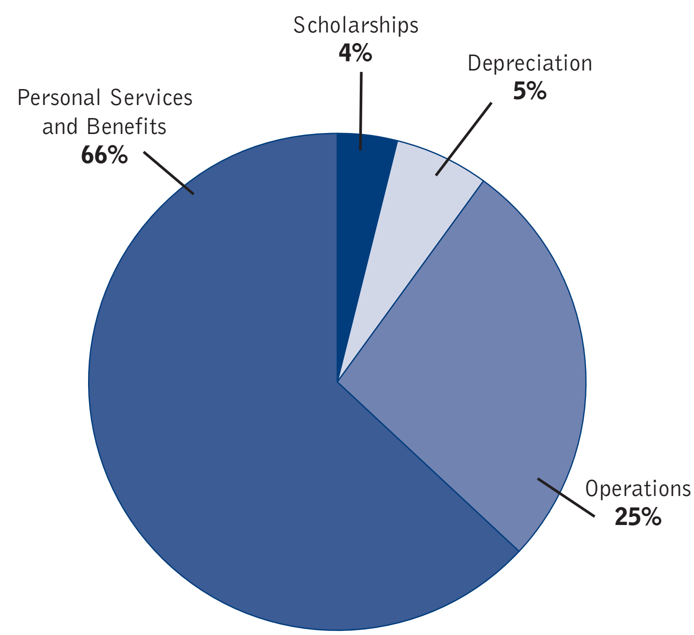
In addition to their functional (program) classification, it is also informative to review operating expenses by their natural (object) classification. A comparative summary of the University's expenses by natural classification for the years ended June 30, 2007 and June 30, 2006, is as follows:

	2007	2006
Operating:		
Personal services and benefits	$ 216,465,177	$ 195,330,219
Operations	83,268,762	87,831,990
Scholarships	13,031,632	11,796,548
Depreciation	17,867,470	15,806,960
Total operating	330,633,041	310,765,717
Nonoperating:		
Interest and other	10,540,639	10,432,798
Total expenses	$ 341,173,680	$ 321,198,515

Operating Expenses
Functional Classifications
Fiscal Year 2007



Operating Expenses
Natural Classifications
Fiscal Year 2007



CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets at June 30, 2007

At June 30, 2007, the University had $366.2 million invested in capital assets. During the year the University added $75.0 million in new capital assets and retired $4.0 million of obsolete assets. Accumulated depreciation increased by $14.0 million. In addition, the University changed its capitalization threshold for equipment from $2,500 to $5,000, this caused beginning net assets to decrease by approximately $3.4 million. Details of capital assets for the years ended June 30, 2007 and 2006 are as follows:

	2007	2006 as restated
Land	$ 5,597,637	$ 5,597,637
Infrastructure	60,546,583	54,210,661
Buildings	436,684,041	333,495,348
Equipment	55,985,282	54,324,910
Library books and media	47,213,975	46,564,331
Construction in progress	16,599,584	57,351,835
Accumulated depreciation	(256,419,716)	(242,404,623)
Total capital assets	$ 366,207,386	$ 309,140,099

Significant capital additions completed or in progress, and the resources that funded their acquisitions for fiscal year 2007, were:

- Library acquisitions, $827,728, unrestricted net assets
- 4 level, 900 car parking structure project, $7,917,583, bond proceeds
- McKay Village student apartments, $22,685,000, lease purchase
- Applied Research and Development Building, $10,140,235, certificates of participation
- South San Francisco sidewalk project, $515,785, grant
- New Laboratory facility, $10,495,022, certificates of participation proceeds
- Wayfinding signage and landscape project, $2,024,719, bond proceeds

Projects in progress, or planned to commence in fiscal year 2008 funded from COPS and system revenue bonds include:

- North campus infrastructure
- New residence hall
- Student dining expansion in University Union
- North campus utilities
- Photovoltaic array power generator system

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, 2007

At June 30, 2007, the University had $249.6 million in outstanding bonds, certificates of participation, other long-term obligations, and capital leases, an increase of approximately $12.7 million or 5.3 percent from fiscal year 2006. This is due to a reduction of $11.1 million of principal, a net increase of $1.1 million due to an advance refunding of bonds, and fiscal year new borrowings of $22.7 million. During the year ended June 30, 2007, the University issued $42.3 million of system revenue and refunding bonds to advance refund portions of the Series 2002 system revenue bonds and the Series 2003 system revenue bonds in order to take advantage of lower interest rates and realize debt service savings. The table below summarizes the University's outstanding debt from fiscal years 2007 and 2006.

	2007	2006
System revenue and housing bonds	$ 122,565,000	$ 131,805,000
Capital leases	35,345,000	13,120,000
Certificates of participation	90,285,000	90,285,000
Other long-term obligations	1,353,959	1,670,724
Subtotal	249,548,959	236,880,724
Less deferred amount on refunding	(2,463,910)	(1,557,697)
Plus bonds premium	5,116,195	4,898,448
Total	$ 252,201,244	$ 240,221,475

At June 30, 2007, 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.

Economic Outlook

A slowdown in the national and Arizona's economy is having an impact on the Arizona General Fund. After the first three months of the 2007-2008 fiscal year, collections are $148.1 million below the forecast for the first quarter. Less than expected growth for the quarter has been recorded in sales taxes, $86.2 million or -7.1%, individual income taxes, $55.3 million or -5.8%, and corporate income taxes, $30.5 million or -11.3%. Arizona's public university system received an increase in their FY 2008 General Fund budget of $157.3 million which is a 16.3 percent increase over their FY 2007 General Fund budget of $963.8 million. Overall spending authority is up $280.4 in FY 2008. This comes from an increase of $157.3 million in new General Fund monies, $41.0 million in remitted tuition, fees and miscellaneous revenues, and $82.2 million in non-appropriated funds. At Arizona State University state expenditure authority is up $138.5 million (10.8%), at Northern Arizona University state expenditure authority is up $39.0 million (11.4%), at the University of Arizona state expenditure authority is up $93.2 million (6.4%), and at the Arizona Board of Regents expenditure authority is up $9.7 million (49.2%). This happens at the same time that student enrollments continue to rise. There are now a record 122,731 students at Arizona's public universities for a 1.9 percent increase over Fall 2006. In Fall 2007 student headcount enrollments at Arizona State University grew by 1,116 (1.8%), Northern Arizona grew by 778 (3.8%), and at the University of Arizona they grew by 412 (1.1%). Since Northern Arizona 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, 2007

SOURCES

State Appropriations **38.0%** Includes legislative appropriations from state of Arizona general revenue for current operations of the University, $1,826,100 for financial aid, and $2,647,200 for building renewal.	**$ 139,509,650**
Tuition and Fees, Net of Scholarship Allowances **24.3%** Includes $59,425,092 to support the operating budget, $9,753,549 for summer sessions, $46,410,055 for funding of local budgets, scholarships and retirement of non-housing bond indebtedness less $26,426,287 for scholarship allowances	**$ 89,162,409**
Government Grants and Contracts **15.2%** Includes operating revenues of $42,000,042 from federal grants and contracts, $7,395,972 from state grants and contracts, and $6,321,502 from local government grants and contracts.	**$ 55,717,516**
Auxiliary Enterprises **10.5%** Operations of substantially self-supporting activities such as housing, bookstore, student unions, and intercollegiate athletics.	**$ 38,611,810**
Share of State Sales Tax **4.6%** University's share of state sales tax collections from Proposition 301.	**$ 16,912,965**
Private Gifts, Grants, and Contracts **2.6%** Includes gifts, grants, and contracts for scholarships, endowments, and plant facility additions.	**$ 9,382,381**
Investment Income **2.4%** Earnings from short-term investments of funds not necessary for immediate operational expenses and long-term investment of endowment and bond-retirement sinking funds.	**$ 8,932,574**
Other Sources **2.4%** Includes additions to permanent endowments, capital grants and gifts, and other operating miscellaneous revenues.	**$ 8,797,346**
Total Sources	**$ 367,026,651**

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, 2007

USES

Instruction and Academic Support **42.0%** Instruction, totaling $116,547,826, 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 $26,667,760, includes libraries, audio-visual services, and academic administration.	**$ 143,215,586**
Student Services and Institutional Support **16.5%** Student services, totaling $23,906,998, includes areas such as admissions, registrar, minority services, counseling, placement, student aid administration, and health services. Institutional support, totaling $32,384,760, includes executive management, financial operations, computing support, human resource services, security, and University relations.	**$ 56,291,758**
Research and Public Service **14.3%** Research, totaling $21,352,577 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 $27,508,601 are activities that make available to the general public the benefits of the instructional or research activities and include local school consortiums and public broadcasting.	**$ 48,861,178**
Auxiliary Enterprises **9.8%** 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.	**$ 33,491,413**
Operation and Maintenance of Plant **5.3%** 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.	**$ 17,874,004**
Depreciation **5.2%** Depreciation expense of capital assets over their useful lives.	**$ 17,867,470**
Scholarships and Fellowships **3.8%** 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.	**$ 13,031,632**
Other Uses **3.1%** Other uses include $10,505,729 in interest expense on capital asset-related debt and, a $34,910 loss on disposal of capital assets.	**$ 10,540,639**
Total Uses	**$ 341,173,680**

FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
June 30, 2007

ASSETS	Business-Type Activities
Current assets:	
Cash and cash equivalents	$ 84,146,283
Investments	8,740,576
Receivables, net of allowance for uncollectibles:	
Accounts receivable	7,563,150
Accrued interest	1,292,916
Endowment - land sale	7,010
Government grants and contracts	12,327,760
Student loans	1,210,767
Other assets	1,470,359
Inventories	288,724
Total current assets	$ 117,047,545
Noncurrent assets:	
Restricted cash and cash equivalents held by trustee for capital projects	$ 14,290,380
Investments	6,599,622
Student loans receivable, net of allowance	4,824,046
Endowment investments	16,041,594
Other noncurrent assets	432,359
Capital assets, not being depreciated	22,197,221
Depreciable capital assets, net of depreciation	344,010,165
Total noncurrent assets	$ 408,395,387
Total assets	$ 525,442,932
LIABILITIES	
Current liabilities:	
Accounts payable	$ 8,055,552
Accrued payroll and employee benefits	8,340,088
Interest payable	1,845,283
Deferred revenue	10,593,472
Accrued compensated absences	4,535,405
Deposits held in custody for others	2,647,013
Current portion of long term debt funded by:	
University operating revenues	10,343,278
State of Arizona appropriations/share of state sales tax	2,255,000
Total current liabilities	$ 48,615,091
Noncurrent liabilities:	
Deposits held in custody for others	$ 926,445
Long term debt funded by:	
University operating revenues	151,572,966
State of Arizona appropriations/share of state sales tax	88,030,000
Total noncurrent liabilities	$ 240,529,411
Total liabilities	$ 289,144,502
NET ASSETS	
Invested in capital assets, net of related debt	$ 126,930,188
Restricted:	
Nonexpendable:	
Scholarships and fellowships	11,794,196
Student loans	7,056,949
Expendable:	
Scholarships and fellowships	3,696,153
Research	6,753,737
Academic department use	9,350,843
Unrestricted	70,716,364
Total net assets	$ 236,298,430

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF FINANCIAL POSITION - Component Units
June 30, 2007

	NAU FOUNDATION	NACFFC	TOTAL
ASSETS			
Cash and cash equivalents	$ 3,346,324	$ 23,700	$ 3,370,024
Investments	58,762,401		58,762,401
Accounts receivable	303,037	555,922	858,959
Unconditional promises to give (net of allowance)	11,847,286		11,847,286
Assets held by trustee	3,720,941	5,203,030	8,923,971
Property, plant and equipment, net of depreciation	87,665	9,209,549	9,297,214
Net investment in sales-type lease		35,277,083	35,277,083
Other assets	759,599	2,566,376	3,325,975
Total assets	$ 78,827,253	$ 52,835,660	$ 131,662,913
LIABILITIES			
Accounts payable and accrued liabilities	$ 389,484	$ 1,226,612	$ 1,616,096
Bonds payable		47,777,998	47,777,998
Assets held in custody for others	6,015,467		6,015,467
Other liabilities	1,067,378	23,700	1,091,078
Total liabilities	$ 7,472,329	$ 49,028,310	$ 56,500,639
NET ASSETS			
Unrestricted	$ 12,136,908	$ 3,807,350	$ 15,944,258
Temporarily restricted	25,025,064		25,025,064
Permanently restricted	34,192,952		34,192,952
Total net assets	$ 71,354,924	$ 3,807,350	$ 75,162,274
TOTAL LIABILITIES AND NET ASSETS	$ 78,827,253	$ 52,835,660	$ 131,662,913

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For Year Ended June 30, 2007

	Business-Type Activities
REVENUES	
Operating Revenues	
Tuition and fees, net of scholarship allowances of $26,426,287, pledged as security for revenue bonds	$ 89,162,409
Government grants and contracts	55,458,577
Private grants and contracts	4,107,684
Auxiliary enterprises, includes revenues pledged as security for revenue bonds:	
Bookstore	4,552,068
Residence life, net of scholarship allowances of $1,881,975	21,755,415
Other auxiliaries	12,304,327
Other	7,235,836
Total operating revenues	$ 194,576,316
EXPENSES	
Operating Expenses	
Educational and general:	
Instruction	$ 116,547,826
Research	21,352,577
Public service	27,508,601
Academic support	26,667,760
Student services	23,906,998
Institutional support	32,384,760
Operation and maintenance of plant	17,874,004
Scholarships and fellowships	13,031,632
Auxiliary enterprises	33,491,413
Depreciation	17,867,470
Total operating expenses	$ 330,633,041
Operating loss	$ (136,056,725)
NONOPERATING REVENUES AND (EXPENSES)	
State appropriations	$ 136,862,450
Share of state sales tax - technology and research initiative funding	16,912,965
Government grants and contracts	258,939
Private gifts, grants, and contracts	5,274,697
Investment income	8,932,574
Interest expense on capital asset related debt	(10,505,729)
Loss on disposal of capital assets	(34,910)
Other nonoperating revenues	976,724
Total nonoperating revenues and expenses	$ 158,677,710
Income before other revenues, expenses, gains or losses	$ 22,620,985
Capital appropriations	$ 2,647,200
Capital grants and gifts	62,443
Additions to permanent endowments	522,343
Increase in net assets	$ 25,852,971
NET ASSETS	
Total net assets, July 1, 2006, as restated (Note 1)	$ 210,445,459
Total net assets, June 30, 2007	$ 236,298,430

See Notes to Financial Statements

FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES - Component Units
For Year Ended June 30, 2007

	NAU FOUNDATION	NACFFC	TOTAL
CHANGES IN UNRESTRICTED NET ASSETS			
Unrestricted support	$ 499,868	$	$ 499,868
Investment earnings	3,830,967	1,375,413	5,206,380
Rent		711,370	711,370
Capital lease revenue		22,294,535	22,294,535
Other	718,930		718,930
Total unrestricted support	$ 5,049,765	$ 24,381,318	$ 29,431,083
Net assets released from restrictions	4,587,074		4,587,074
Total unrestricted revenues and support	$ 9,636,839	$ 24,381,318	$ 34,018,157
Expenses:			
Scholarships	$ 1,343,045	$	$ 1,343,045
Operating	2,549,614		2,549,614
Interest		1,445,844	1,445,844
Educational purposes	2,600,187		2,600,187
Amortization and depreciation		40,642	40,642
Assets expensed under capital lease agreement		19,927,749	19,927,749
Other		294,789	294,789
Total expenses	$ 6,492,846	$ 21,709,024	$ 28,201,870
Increase in unrestricted net assets	$ 3,143,993	$ 2,672,294	$ 5,816,287
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS			
Public contributions	$ 11,231,431		$ 11,231,431
Investment earnings	2,834,502		2,834,502
Other income changes	(122,170)		(122,170)
Net assets released from restrictions	(4,587,074)		(4,587,074)
Increase in temporarily restricted assets	$ 9,356,689		$ 9,356,689
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS			
Public contributions	$ 4,627,130		$ 4,627,130
Investment earnings	377,094		377,094
Other income changes	615,362		615,362
Increase in permanently restricted net assets	$ 5,619,586		$ 5,619,586
INCREASE IN NET ASSETS	$ 18,120,268	$ 2,672,294	$ 20,792,562
NET ASSETS, BEGINNING OF YEAR, AS RESTATED	$ 53,234,656	$ 1,135,056	$ 54,369,712
NET ASSETS, END OF YEAR	$ 71,354,924	$ 3,807,350	$ 75,162,274

See Notes to Financial Statements

STATEMENT OF CASH FLOWS
For Year Ended June 30, 2007

	Business-Type Activities
Cash flows from operating activities:	
Tuition and fees	$ 86,237,746
Grants and contracts	55,026,090
Payments to suppliers and providers of goods and services	(80,966,114)
Payments to employees	(212,751,328)
Payments for scholarships and fellowships	(13,031,632)
Loans issued to students	(1,652,147)
Collection of loans to students	1,483,540
Auxiliary enterprise receipts:	
Residence halls	22,698,858
Bookstore	5,224,511
Other auxiliaries	11,890,936
Other receipts	5,538,041
Net cash used for operating activities	$ (120,301,499)
Cash flows from noncapital financing activities:	
State appropriations	$ 136,862,450
Share of state sales tax	16,912,965
Gifts and grants for other than capital purposes	5,533,636
Federal direct student lending received	85,832,101
Federal direct student lending disbursed	(85,832,101)
Financial aid trust funds	522,343
Other receipts	976,724
Net cash provided by noncapital financing activities	$ 160,808,118
Cash flows from capital financing activities:	
Capital appropriations	$ 2,647,200
Proceeds from issuance of capital debt	2,991
Proceeds from sale of capital assets	67,951
Capital grants and gifts received	36,111
Purchases of capital assets	(52,326,286)
Principal paid on capital debt and leases	(11,146,765)
Interest paid on capital debt and leases	(10,482,680)
Net cash used for capital financing activities	$ (71,201,478)
Cash flows from investing activities:	
Proceeds from sales and maturities of investments	$ 31,487,299
Interest on investments	8,347,487
Purchase of investments	(7,041,592)
Net cash provided by investing activities	$ 32,793,194
Net increase in cash and cash equivalents	$ 2,098,335
Cash and cash equivalents - beginning of year	96,338,328
Cash and cash equivalents - end of year	$ 98,436,663
Reconciliation of operating loss to net cash used for operating activities:	
Operating loss	$ (136,056,725)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	17,867,470
Changes in assets and liabilities - cash increase (decrease) related to:	
Receivables:	
Accounts receivable	(1,635,384)
Government grants and contracts	(5,461,107)
Student loans receivables and accrued interest from student loans	(182,292)
Inventories	1,343,096
Other assets	(230,407)
Accounts payable	959,552
Accrued payroll and employee benefits	266,363
Deferred revenue	1,941,149
Deposits held in custody for others	830,388
Accrued compensated absences	56,398
Net cash used for operating activities	$ (120,301,499)
Significant noncash transactions	
Increase in fair value of investments	557,699
Assets acquired through capital lease	22,685,000
Refunding of long term debt	42,260,000

See Notes to Financial Statements

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).

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.

During the year ended June 30, 2007, the Foundation distributed $4.9 million to the University for restricted and unrestricted purposes. The University also entered into a lease agreement for $22.7 million with NACFFC as described in Note 4.

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.

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

Change in Accounting Principle

In fiscal year 2007, the University increased its capitalization threshold for equipment from $2,500 to $5,000. The University's net assets reported as of June 30, 2006, have been restated as follows:

Net assets, beginning of year, as previously reported	$213,860,405
Cumulative effect of change in capitalization threshold	(3,414,946)
Net assets, beginning of year, as restated	$210,445,459

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, 2007, are reported less allowances for both estimated uncollectible amounts and collection costs of $962,500 and $1,457,500, respectively.

Inventories

Inventories are stated at the lower of cost or market. The cost of 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.

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.

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	5,000	Straight Line	5-15 years
Library books and media	All	Straight Line	10 years

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.

Note 2—Deposits 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 governs 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, 2007, cash on hand was $31,370, the carrying amount of the University's deposits was $1,567,258 and the bank balance was $4,277,836. 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, 2007, $4,177,836 of the University's bank balance was uninsured with collateral held by the pledging financial institution.

Investments	Amount
State Treasurer's investment pool	$ 81,619,830
U.S. agency securities	15,212,474
Student Financial Aid Trust Fund	11,269,319
Bond Trustee Funds:	
Government Money Market Mutual Fund	14,082,173
State Treasurer's investment pool	208,207
Investments with NAU Foundation	5,827,824
	$ 128,219,827

The State Board of Investment provides oversight for the State Treasurer's investment pools. 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.

Credit Risk

Beyond the requirements established by ABOR, the University does not have a formal policy with respect to credit risk. At June 30, 2007, credit risk for the University investments were as follows:

Investment Type	Rating	Rating Agency	Amount
U.S. agency securities	AAA	Standard and Poors	$ 15,212,474
State Treasurer's investment pool	unrated	N/A	81,619,830
Student Financial Aid Trust Fund, debt securities	unrated	N/A	2,791,116
Bond Trustee Funds:			
Government Money Market Mutual Fund	AAA	Standard and Poors	14,082,173
State Treasurer's investment pool	unrated	N/A	208,207
Investments with NAU Foundation	unrated	N/A	5,827,824
			$ 119,741,624

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, 2007, the University had $15,212,474 of U.S. agency securities that were uninsured and held by the counterparty not in the University's name and $14,082,173 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, 2007, were in Federal Home Loan Mortgage Corporation securities. These investments were 5.65 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	$ 81,828,037	$ 81,828,037			
U.S. agency securities	15,212,474	8,740,576	$ 6,471,898		
NAU Foundation	5,827,824	854,942	3,320,694	$ 1,245,989	$ 406,199
Student Financial Aid Trust Fund	2,791,116			2,791,116	
Government Money Market Mutual Fund	14,082,173	14,082,173			
Total	$ 119,741,624	$105,505,728	$ 9,792,592	$ 4,037,105	$ 406,199

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	$ 31,370
Cash in bank	1,567,258
Total investments	128,219,827
	$ 129,818,455

Statement of Net Assets:	
Cash and cash equivalents	$ 84,146,283
Current investments	8,740,576
Restricted cash and investments held by trustee for capital projects	14,290,380
Noncurrent investments	6,599,622
Endowment investments	16,041,594
	$ 129,818,455

Note 3—Capital Assets

Capital asset activity for the year ended June 30, 2007, was as follows:

	Balance June 30, 2006, as restated	Additions	Retirements	Transfers	Balance June 30, 2007
Capital assets not being depreciated:					
Land	$ 5,597,637				$ 5,597,637
Construction in progress	57,351,835	$ 44,376,947		$ (85,129,198)	16,599,584
Total capital assets not being depreciated	62,949,472	44,376,947		(85,129,198)	22,197,221
Capital assets being depreciated:					
Infrastructure	54,210,661	1,369,311		4,966,611	60,546,583
Buildings and improvements	333,495,348	23,026,106		80,162,587	436,684,041
Equipment	54,324,910	5,445,484	$ 3,785,112		55,985,282
Library books and media	46,564,331	827,728	178,084		47,213,975
Total capital assets being depreciated	488,595,250	30,668,629	3,963,196	85,129,198	600,429,881
Less accumulated depreciation for:					
Infrastructure	21,992,945	1,766,620		17,815	23,777,380
Buildings and improvements	139,973,013	10,980,910		(17,815)	150,936,108
Equipment	40,575,234	3,406,155	3,674,293		40,307,096
Library books and media	39,863,431	1,713,785	178,084		41,399,132
Total accumulated depreciation	242,404,623	17,867,470	3,852,377		256,419,716
Total capital assets being depreciated, net	246,190,627	12,801,159	110,819	85,129,198	344,010,165
Capital assets, net	**$ 309,140,099**	**$ 57,178,106**	**$ 110,819**	**$ –**	**$ 366,207,386**

The capital assets June 30, 2006, balances have been adjusted by $3.4 million to reflect a change in the capitalization threshold for equipment to $5,000 effective for fiscal year 2007. See Note 1.

Construction - The University had major contractual commitments related to various capital projects at June 30, 2007, for the construction of a new residence hall, north campus utility infrastructure, and the University Union dining expansion. At June 30, 2007, the University had spent $6,760,000 on these projects and had remaining contractual commitments with contractors of $23,432,000. These projects are being financed with system revenue bonds, series 2007 issued in July 2007, and Certificates of Participation, series 2006.

Note 4—Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2007, was as follows:

	Balance June 30, 2006	Additions	Reductions	Balance June 30, 2007	Due Within One Year
Long-term obligations	$ 1,670,724		$ 316,765	$ 1,353,959	$ 332,097
Capital leases	13,120,000	$ 22,685,000	460,000	35,345,000	358,750
Certificates of participation	90,285,000			90,285,000	2,255,000
Revenue and housing bonds payable	131,805,000	42,260,000	51,500,000	122,565,000	9,610,000
Less deferred amount on refunding	(1,557,697)	(1,194,209)	(287,996)	(2,463,910)	(297,289)
Discounts/premiums	4,898,448	1,803,072	1,585,325	5,116,195	339,720
Total long-term liabilities	**$240,221,475**	**$ 65,553,863**	**$ 53,574,094**	**$252,201,244**	**$ 12,598,278**

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, 2007, are as follows:

Student housing - 5.5 percent, principal payable annually on April 1 through 2009, revenues of various housing projects pledged for payment	$ 195,000
System revenue bonds, Series of 1997 - 5.0% to 6.5%, principal maturing serially on June 1, 2009, through 2010, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue refunding bonds, the Series 2002 system revenue bonds, Series 2003 system revenue bonds, Series 2004 system revenue refunding bonds, the Series 2005 system revenue bonds, and the Series 2006 system revenue refunding bonds	$ 5,645,000
System revenue refunding bonds, Series of 2002 - 3.0% to 4.0%, principal maturing serially on June 1, 2003, through 2008 secured by a first lien on certain gross revenues, on a parity with the Series 1997 system revenue bonds, the Series 2002 system revenue bonds, and the Series 2003 system revenue bonds, Series 2004 system revenue refunding bonds, the Series 2005 system revenue bonds, and the Series 2006 system revenue refunding bonds	$ 7,645,000
System revenue bonds, Series of 2002 - 3% to 4.875%, principal maturing serially on June 1, 2003, through 2022, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue refunding bonds, the Series 1997 system revenue bonds, the Series 2003 system revenue bonds, Series 2004 system revenue refunding bonds, the Series 2005 system revenue bonds, and the Series 2006 system revenue refunding bonds	$ 7,735,000
System revenue bonds, Series of 2003 - 2.5% to 4.0%, principal maturing serially on June 1, 2005, through 2016, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue refunding bonds, the Series 1997 system revenue bonds, the Series 2002 system revenue bonds, Series 2004 system revenue refunding bonds, the Series 2005 system revenue bonds, and the Series 2006 system revenue refunding bonds	$ 6,055,000
System revenue and refunding bonds, Series of 2004 - 3% to 4.75%, principal maturing serially on June 1, 2005, through 2034, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue refunding bonds, the Series 1997 system revenue bonds, Series 2003 system revenue bonds, Series 2002 system revenue bonds, Series 2005 system revenue bonds, and the Series 2006 system revenue refunding bonds	$ 37,990,000
System revenue bonds, Series of 2005 - 3.0% to 4.75%, principal maturing serially on June 1, 2005, through 2040, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue refunding bonds, the Series 1997 system revenue bonds, the Series 2003 system revenue bonds, Series 2002 system revenue bonds, Series 2004 system revenue and refunding bonds, and the Series 2006 system revenue refunding bonds	$ 15,040,000
System revenue refunding bonds, Series of 2006 - 4.0% to 5.0%, principal of $20,600,000 maturing serially on June 1, 2008, through 2027, and $21,660,000 maturing in two term bonds on June 1, 2031 and 2034, secured by a first lien on certain gross revenues, on a parity with the Series 2002 system revenue refunding bonds, the Series 1997 system revenue bonds, the Series 2003 system revenue bonds, Series 2002 system revenue bonds, Series 2004 system revenue and refunding bonds, and the Series 2005 system revenue bonds	$ 42,260,000
	$ 122,565,000

The following schedule details debt service requirements to maturity for the University's bonds payable at June 30, 2007.

	Revenue and Housing Bonds	
	Principal	**Interest**
Year Ending June 30,		
2008	$ 9,610,000	$ 5,642,263
2009	4,770,000	5,287,410
2010	4,880,000	5,041,506
2011	5,085,000	4,792,984
2012	5,300,000	4,602,007
2013-17	30,270,000	19,039,816
2018-22	14,675,000	13,321,405
2023-27	16,160,000	9,580,577
2028-32	18,600,000	5,627,464
2033-37	10,770,000	1,598,843
2038-40	2,445,000	244,270
Total	$122,565,000	$ 74,778,545

Bonds

On December 12, 2006, the University sold System Revenue and Refunding Bonds Series 2006 for $42,260,000 dated December 1, 2006. The 2006 Bonds include $20,600,000 of serial bonds with interest rates ranging from 4.00% to 5.00% and maturity dates ranging from June 1, 2008 to June 1, 2027. The 2006 Bonds also include $21,660,000 of term bonds, with an interest rate of 4.50% and maturing on June 1, 2031 and 2034 and are subject to annual sinking fund contributions. The bonds maturing on or after June 1, 2018, are subject to optional redemptions without premium on June 1, 2017. The 2006 Bonds were sold with net original issue premium of $1,803,072 and had accrued interest of $110,553. The University realized net proceeds of $43,713,250 after payment of $460,375 for issuance costs, underwriter discounts, and bond insurance. The costs associated with this issue were recorded in the current fiscal year. The Series 2006 System Revenue and Refunding Bonds, have an average interest rate of 4.68%, and the refunded portion of the Series 2002 system revenue bonds and the Series 2003 system revenue bonds had an average interest rate of 5.00% and 5.50%, respectively. Although the recognition of the difference between the reacquisition price and the net carrying amount of the old debt of $1,194,209, which was reported in the financial statements as a deferred charge, for the year ended June 30, 2007, the University reduced its aggregate debt service payments by $3,657,966 over the next 27 years and obtained an economic gain (i.e., the difference between present values of the old and the new debt service payments) of $2,266,019. The proceeds were used to refund $17,410,000 of the Series 2002 and $23,720,000 of the Series 2003 debt.

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, 2007, $41,245,000 of such bonds outstanding are considered defeased.

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), and McKay Village (MV). The University recorded a capital lease of $13.2 million in fiscal 2005 for the PRV complex. The University recorded a capital lease of $22.685 million in fiscal year 2007 for the MV complex.

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, 2007.

Minimum lease payment commitments for the PRV and MV complexes, 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, 2007, for all subsequent years are presented in the table on the following page.

The following schedule details outstanding Certificates of Participation payable at June 30, 2007.

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
2004 Research Infrastructure	$ 37,585,000	2030	2.5 – 5.0%	$ 37,585,000
2005 Research Infrastructure	40,255,000	2030	3.0 – 5.0%	40,255,000
2006 Research Infrastructure	12,445,000	2030	4.0 – 4.5%	12,445,000
	$ 90,285,000			$ 90,285,000

The following schedule details debt service requirements to maturity for the University's certificates of participation payable at June 30, 2007.

	Certificates of participation Principal	Interest
Year ended June 30,		
2008	$ 2,255,000	$ 3,994,593
2009	2,325,000	3,922,768
2010	2,390,000	3,847,206
2011	2,480,000	3,763,533
2012	2,575,000	3,666,356
2013-17	14,490,000	16,671,885
2018-22	18,035,000	13,042,594
2023-27	22,945,000	8,028,476
2028-32	22,790,000	1,919,527
Total	$ 90,285,000	$ 58,856,938

Year ended June 30,	Capital Lease Payments (in Thousands)
2008	$ 1,472
2009	1,506
2010	1,548
2011	1,589
2012	1,633
2013-17	9,202
2018-22	10,947
2023-27	12,226
2028-32	13,427
2033	3,155
Total minimum lease payments	56,705
Less amount representing interest	21,360
Present value of minimum lease payments	$ 35,345

Note 5—Retirement Plans

The University participates in one cost-sharing multiple-employer defined benefit pension plan and three 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 85067-3910, or calling (602) 240-2000 or (800) 621-3778.

For the year ended June 30, 2007, active ASRS members and the University were each required by statute to contribute at the actuarially determined rate of 9.10 percent (8.60 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, 2007, 2006, and 2005 were $5,839,060, $4,394,305 and $2,964,056, 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, 2007, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Service Company (Fidelity), were approved by the Board. Benefits under these plans depend solely on the contributed amounts and the returns earned on investments of those contributions. 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, 2007, 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, 2007, are summarized below.

Contributions to Retirement Plans
for the year ended June 30, 2007, are summarized below.

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	$ 3,018,143	$ 3,018,143	$ 6,036,286
VALIC	$ 608,270	$ 608,270	$ 1,216,540
Fidelity	$ 1,034,126	$ 1,034,126	$ 2,068,252

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, 2007 • Natural Classification

	Personal Services and Benefits	Operations	Scholarships	Depreciation	Total
Functional Classification:					
Instruction	$ 101,769,856	$ 14,777,970			$ 116,547,826
Research	14,728,578	6,623,999			21,352,577
Public service	12,921,576	14,587,025			27,508,601
Academic support	19,881,139	6,786,621			26,667,760
Student services	16,913,022	6,993,976			23,906,998
Institutional support	25,436,466	6,948,294			32,384,760
Operation and maintenance of plant	7,909,412	9,964,592			17,874,004
Scholarships and fellowships			$ 13,031,632		13,031,632
Auxiliary enterprises	16,905,128	16,586,285			33,491,413
Depreciation				$ 17,867,470	17,867,470
Total	$ 216,465,177	$ 83,268,762	$ 13,031,632	$ 17,867,470	$ 330,633,041

Note 8—Other Matters

Subsequent Event

In July 2007 the University issued approximately $38.7 million of system revenue bonds for the purpose of constructing a new residence hall and renovation of the university dining hall on the mountain campus. These bonds are secured by a first lien on certain gross revenues and are on parity with the Series 2002 system revenue refunding bonds, the Series 1997 system revenue bonds, the Series 2003 system revenue bonds, the Series 2002 system revenue bonds, the Series 2004 system revenue and refunding bonds, the Series 2005 system revenue bonds, and the 2006 system revenue and refunding bonds.

On September 1st 2006, the University entered into a lease agreement with North Campus Facilities L.L.C. (NCF), a subsidiary of the Northern Arizona Capital Facilities Finance Corporation (NACFFC). During the 30-year lease term, the University will make lease payments on an approximately 41,000 sq. ft. conference center and 344 space parking garage (Northern Arizona University Conference Center).

Upon the project's completion in fiscal year 2008, the University will record a capital lease of $12.4 million. As part of the lease agreement, the University will contribute additional funding towards the project of approximately $4.8 million. To the extent this additional funding can be associated with construction costs; it will be capitalized upon completion of the project.

Tuition Lawsuit

In August 2003, four UA students filed a lawsuit against the Arizona Board of Regents (ABOR) and the State in Pima Count, Arizona Superior Court. The complaint alleged that the tuition increase approved by the ABOR for the 2003-04 academic year violated the State's Constitution. The complaint also asserted that the State has not provided funding to the three universities governed by the ABOR at the level required by the State Constitution. The complaint sought (i) a declaratory judgment that the actions of each of the defendants violated the State Constitution, (ii) preliminary and permanent injunctive relief to prevent the ABOR from imposing the tuition increase and to compel repayment of any amounts already collected, and (iii) preliminary and permanent 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 ABOR'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 ABOR is absolutely immune from suit and that the conduct of the business of the State Legislature is absolutely immune from suit.

In March 2004, the plaintiffs filed a notice of appeal with the Arizona Court of Appeals. In November 2006, the Arizona Court of Appeals issued its decision reversing the Superior Court's decision to dismiss with respect to the ABOR and remanding the case back to the Superior Court. The ABOR filed a petition for review by the Arizona Supreme Court. In August 2007, the Arizona Supreme Court issued its decision in support of the ABOR and agreed with the ABOR that the question of whether the tuition increase ran afoul of the "as nearly free as possible clause in the State Constitution" is a nonjusticiable political question and that the Superior Court properly dismissed the students' claims against the ABOR.

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 and North Campus Facilities (limited liability companies) subsidiaries, 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 and North Campus Facilities LLC's 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.

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, 2007, was $24,956 for issuance costs related to the Series 2005 bonds.

Issuance costs of $470,590 relating to the North Campus Series 2006 Bonds are being amortized on a straight-line basis over the life of the Series 2006 Bonds. Amortization expense for the year ended June 30, 2007, was $15,686 for issuance costs related to the Series 2006 bonds.

B. RESTATEMENT OF NET ASSETS

During fiscal year 2007, management of the Foundation determined that there was a beneficial interest in a perpetual trust that had not been recorded as an asset of the Foundation. In addition, the Foundation determined that the recording of revenue received from the EBS licenses lease agreements was being recorded on a cash basis rather than an accrual basis. These errors resulted in a restatement of beginning net assets of $2,005,100.

Net assets, beginning of year, as previously reported	$51,229,556
Cumulative effect of correction of an error	2,005,100
Net assets, beginning of year, as restated	$53,234,656

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 2006 Bonds, proceeds of the Series 2006 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 $4,232,945 at June 30, 2007. 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, 2007 are as follows:

	Fair Value	Cost
U.S. Government/agency bonds	$ 15,104,212	$ 15,845,051
Corporate bonds	5,205,510	5,295,710
Common stock	31,268,917	23,896,125
International equity funds	6,839,698	5,516,176
Real estate investment trust	344,064	350,177
	$ 58,762,401	$ 50,903,239

Investments include funds held for the custody of others of $5,166,184 at June 30, 2007.

The realized gains and unrealized gains on investments were $1,452,181, and $4,007,475 for the year ended June 30, 2007. Investment expenses of $109,946 for the year ended June 30, 2007 have been netted against investment earnings in the statement of activities.

The fair value and cost of the NACFFC's investments at June 30, 2007 is as follows:

	Fair Value	Cost
Investments held by Trustee		
U.S. Treasury money market funds	$ 4,232,945	$ 4,232,945
	$ 4,232,945	$ 4,232,945

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, 2007 are presented as follows:

FOUNDATION

	Cost or Donated Value	Accumulated Depreciation	Net Assets
Furniture and equipment	$ 100,487	$ 12,822	$ 87,665

NACFFC

	Cost or Donated Value	Accumulated Depreciation	Net Assets
Construction in progress	$ 9,209,549	$ 0	$ 9,209,549

F. LEASE PURCHASE AGREEMENTS

On May 19, 2005, NAU entered into a lease purchase agreement with the Pine Ridge Village/Campus Heights 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 completed during the current fiscal year.. 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 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, 2007) are as follows:

Total minimum lease payments to be received	$ 56,273,079
Less: Unearned income	(20,995,996)
Net investment in sales-type lease	$ 35,277,083

At June 30, 2007, minimum lease payments are as follows:

Year ended June 30,	Amount
2008	$ 1,468,715
2009	1,502,557
2010	1,543,971
2011	1,584,063
2012	1,626,915
Thereafter	48,546,858
	$ 56,273,079

On September 1, 2006, NAU entered into a lease purchase agreement with the North Campus Facilities LLC. During the 30 year lease term, the agreement provides for NAU's lease purchase of the convention center/parking garage complex for $12,400,000 in fiscal year 2008. Upon expiration of the lease, the real property will become the sole property of NAU without further cost.

Additional rents are provided for in the lease purchase agreement to cover costs incurred by North Campus LLC for bond related costs and professional expenses. These rents are recognized when the qualifying expense is incurred.

The lease purchase agreement also provides for additional rents necessary to complete the cost of the convention center/parking garage complex in excess of the amount funded through the issuance of bonds. Money received from the City of Flagstaff under the terms of an intergovernmental agreement (IGA) will be transferred to the construction account on deposit with the trustee, and additional payments from NAU to cover costs of construction will also be transferred to the construction account. The IGA, of which North Campus LLC is not a part, provides for the City of Flagstaff to transfer $2,000,000 to NAU based on percentage of construction completed.

G. BONDS PAYABLE

The NACFFC through its Pine Ridge Village/Campus Heights LLC and the North Campus LLC subsidiaries, had the following bonds outstanding at June 30, 2007:

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, 2007; interest rate fixed through a swap agreement at 3.161 percent from July 1, 2006 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.	$ 35,345,000
North Campus Lease Revenue Serial and Term Bonds in the aggregate original principal amount of $12,400,000 dated September 1, 2006; interest payable semi-annually at various interest rates ranging from 3.6% to 5% based on terms; principal payable annually from June 1, 2009 to June 1, 2036; secured by property, leases and revenues including the Trust Funds, excluding the Rebate Fund, under the terms of the Trust Indenture.	12,400,000
Total bonds payable	47,745,000
Unamortized bond premium/discount	32,998
Bonds payable, net	47,777,998
Less: current maturities	(355,000)
Bonds payable, noncurrent portion, net	$ 47,422,998

At June 30, 2007, maturities of bonds payable are as follows:

Year ending June 30,	
2008	$ 355,000
2009	630,000
2010	695,000
2011	760,000
2012	830,000
Thereafter	44,475,000
Total	$ 47,745,000

Interest expense related to bonds for 2007 was $1,556,498. This includes a reduction in interest of $204,160 under the terms of the swap agreement. Of this, $110,654 was capitalized. Amortization of the bond discount for 2007 was $30,282 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 percent. The notional amount of the contract as of June 30, 2007, is $35,345,000 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

Pine Ridge Village/Campus Heights - 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)

North Campus - The 2006 Bonds maturing on or before June 2016 will not be subject to optional redemption prior to maturity. The 2006 Bonds maturing on or after June 2017 will be subject to optional redemption prior to maturity on any date on or after June 2016 in whole or in part from such maturities as may be selected by the Company at its option at redemption price expressed as percentage of the principal amount of the 2006 Bonds to be called for redemption of 100% plus accrued interest thereon to the date of redemption.

The 2006 Bonds maturing on the following dates will be subject to mandatory sinking fund installments prior to maturity by lot as may be selected by the Trustee at redemption price equal to the principal amount of the 2006 Bonds to be called for redemption plus accrued interest thereon to the date of redemption but without premium on the following dates in the following principal amounts:

Bonds Due June 1, 2025

Year	Principal Amount to be Redeemed
2022	$ 395,000
2023	415,000
2024	435,000
2025	455,000 (Maturity)

Bonds Due June 1, 2031

Year	Principal Amount to be Redeemed
2026	$ 480,000

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	

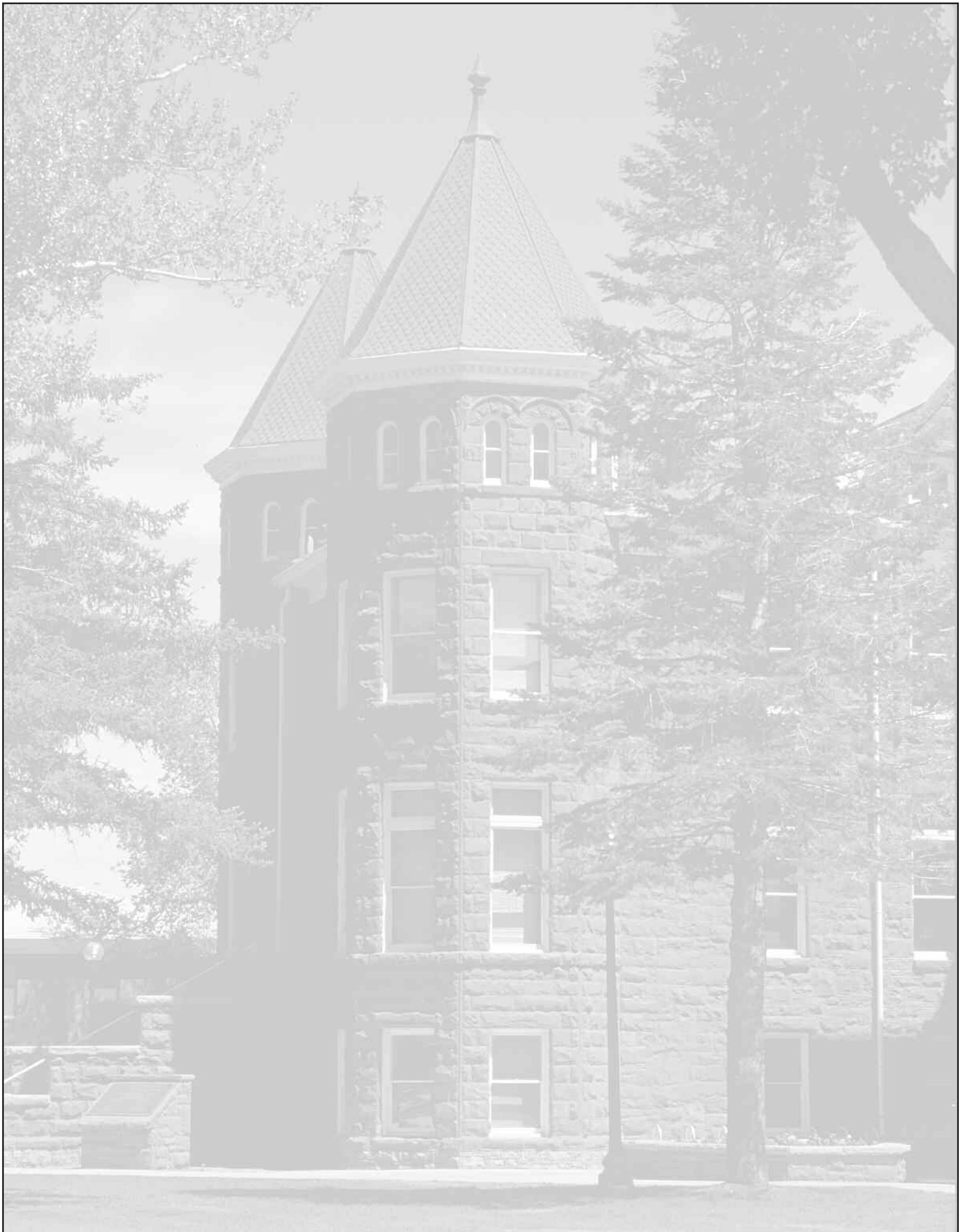
H. ASSETS HELD IN CUSTODY FOR OTHERS

The Foundation maintains certain asset balances on behalf of others, which consists of the following at June 30, 2007:

Cash	$ 229,653
Unconditional promises to give	1,120
Investments	5,166,184
Beneficial interest in perpetual trust	629,777
	6,026,734
Less: accrued expenses	(11,267)
	$ 6,015,467
Assets held on behalf of:	
Northern Arizona University	$ 5,681,969
Parents' Association	202,534
Alumni Association	130,964
	$ 6,015,467

I. SUBSEQUENT EVENT

Subsequent to year-end, the Foundation entered into a contractual agreement whereby the Foundation will be provided funding up to $15,000,000 to purchase Educational Broadcast System licenses from other educational institutions.



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