

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Subject

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

Our Conclusion

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



2006

Year Ended June 30, 2006

The University's Condensed Financial Information

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

Statement of Net Assets

The Statement of Net Assets reports all of the University's assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, which is the difference between assets

and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary below presents a condensed Statement of Net Assets as of June 30, 2006.

Statement of Net Assets
As of June 30, 2006
(In Millions)

| | |
|--|--------------|
| Assets | |
| Current | \$ 81 |
| Noncurrent, other than capital | 93 |
| Capital assets, net | <u>313</u> |
| Total assets | <u>487</u> |
| Liabilities | |
| Current | 43 |
| Noncurrent | <u>230</u> |
| Total liabilities | <u>273</u> |
| Net Assets | |
| Invested in capital assets, net of related debt | 130 |
| Restricted | 37 |
| Unrestricted | <u>47</u> |
| Total net assets | <u>\$214</u> |

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Revenues and expenses are classified as operating if they relate to the University's primary activities, such as instruction, research, and public service. All other revenues and expenses, such as state appropriations and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets showed a \$10.4 million increase. The summary to the right presents the University's revenues and expenses for the year ended June 30, 2006.

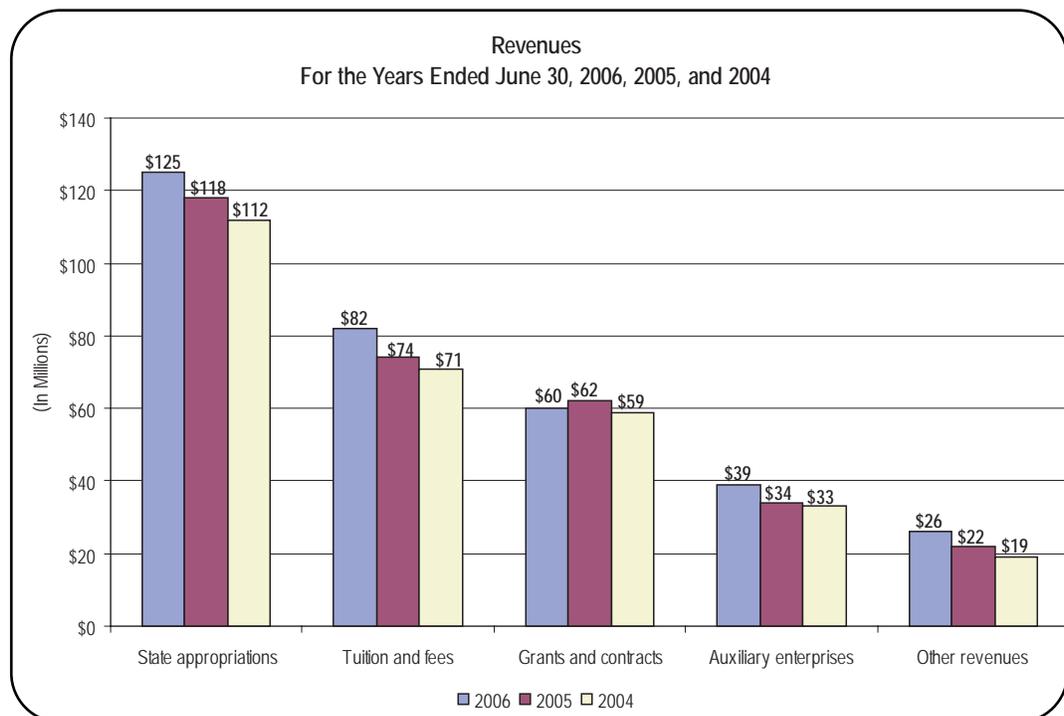
Revenues and Expenses For the Year Ended June 30, 2006 (In Millions)

| | |
|------------------------------------|--------------|
| Operating Revenues | |
| Tuition and fees | \$ 82 |
| Grants and contracts | 55 |
| Auxiliary enterprises | 39 |
| Other | <u>6</u> |
| Total operating revenues | <u>182</u> |
| Nonoperating Revenues | |
| State appropriations | 125 |
| Other | <u>25</u> |
| Total nonoperating revenues | <u>150</u> |
| Total revenues | <u>\$332</u> |
| Operating Expenses | |
| Educational and general | \$259 |
| Auxiliary enterprises | 36 |
| Depreciation | <u>16</u> |
| Total operating expenses | <u>311</u> |
| Nonoperating Expenses | |
| Interest on indebtedness and other | <u>10</u> |
| Total nonoperating expenses | <u>10</u> |
| Total expenses | <u>\$321</u> |

Revenues

Between fiscal years 2004 and 2006, the University's total revenues have increased by \$38 million, or 13 percent. As shown in the chart below, the change primarily resulted from increases in state appropriations and tuition and fees. State

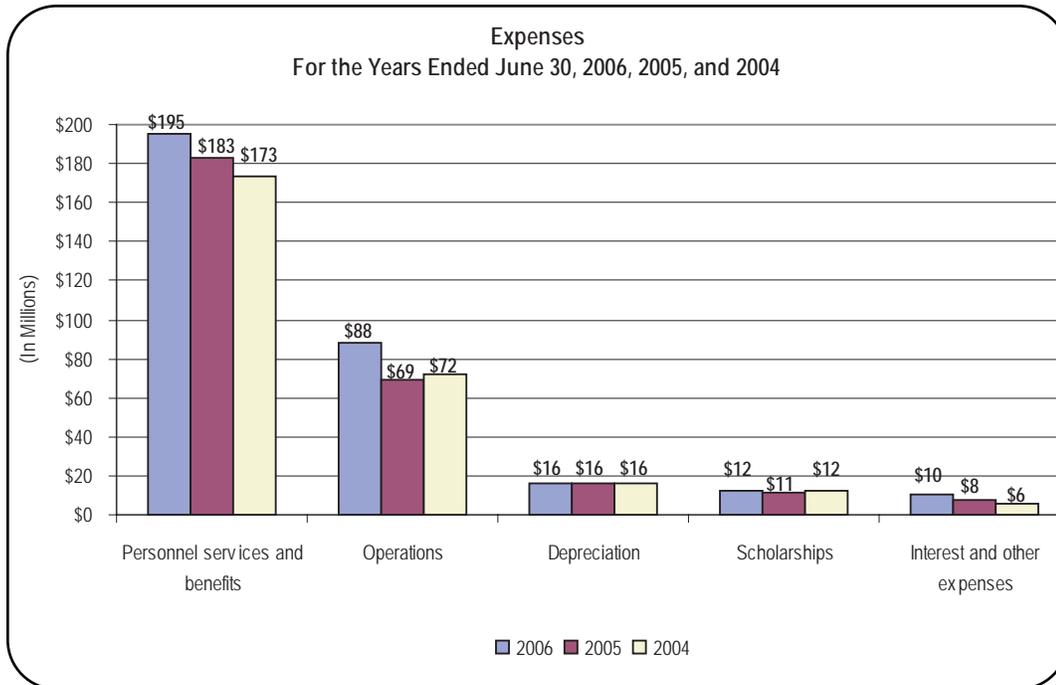
appropriation revenues increased \$13 million, and tuition and fees revenues increased \$11 million during the period. These changes primarily resulted from appropriation increases to offset the cost of student enrollment growth and increased rates for tuition and fees.



Expenses

Between fiscal years 2004 and 2006, the University's total expenses have increased by \$42 million, or 15 percent. As shown in the chart below, the change primarily resulted from increases in personal services and benefits, and

operations. Personal services and benefits increased \$22 million from rising wages and employee benefit costs, and operations increased \$16 million from steady increases in operating costs during the period.



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2006.

Cash Flows
For the Year Ended June 30, 2006
(In Millions)

| | |
|--|--------------|
| Cash flows from: | |
| Operating activities | \$(105) |
| Noncapital financing activities | 145 |
| Capital and related financing activities | (26) |
| Investing activities | <u>(2)</u> |
| Net increase in cash and cash equivalent investments | <u>\$ 12</u> |

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