

**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's *Comprehensive Annual Financial Report*.



2004

Year Ended June 30, 2004

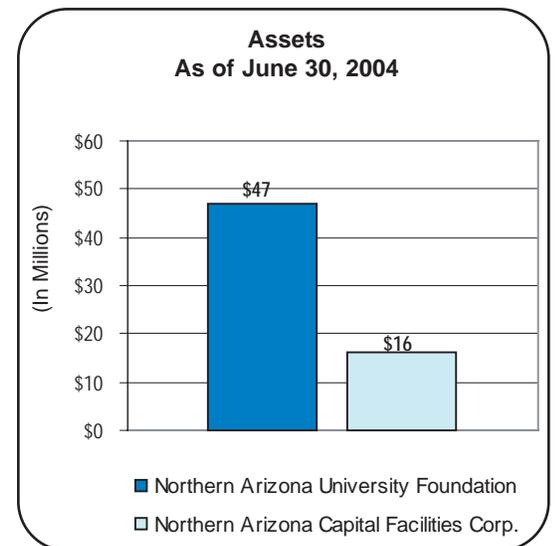
## University Implements New Financial Reporting Standard

During fiscal year 2004, the University implemented Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement requires reporting, as a component unit in the University's financial statements, those legally separate tax-exempt organizations that raise and hold assets for the direct benefit of the University. Organizations that meet all of the following criteria are reported as discretely presented component units in the University's financial statements:

- The assets received or held by the organization are entirely or almost entirely for the direct benefit of the University or its students.
- The University is entitled to or has the ability to otherwise access a majority of the assets received or held by the organization.
- The assets received or held by an individual organization that the University is entitled to or has the ability to otherwise access are significant to the University.

As a result of implementing this statement, the University's financial statements now include financial information for the Northern Arizona University Foundation and the Northern Arizona Capital Facilities Corporation.

The Foundation is a fund-raising organization that donates monies to the University or supports programs that directly benefit the University. Northern Arizona Capital Facilities Corporation constructs and operates student housing for the benefit of the University's students. The chart below shows the assets that each organization holds.



# Condensed Financial Information

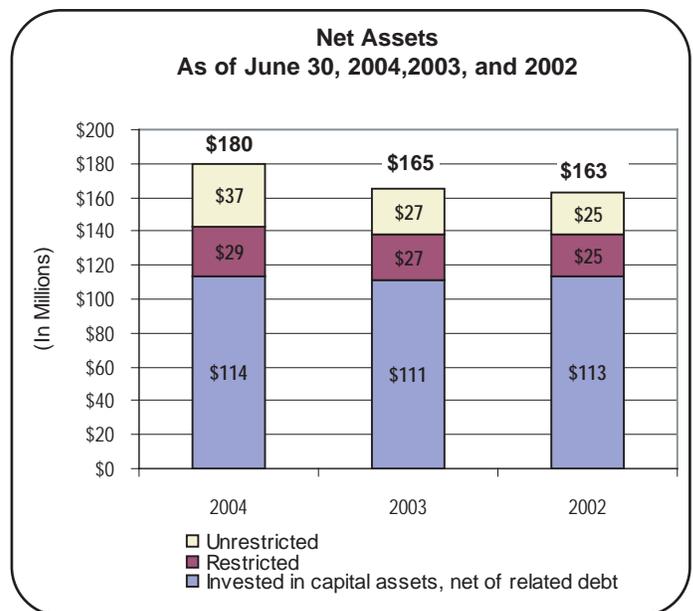
The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses and Changes in Net Assets; and Statement of Cash Flows.

## Statement of Net Assets

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

Changes in net assets over time are one way to measure the University's financial health. As shown in the chart above, the University's financial position has remained relatively stable from fiscal years 2002 through 2004. Total net assets have increased from \$163 million as of June 30, 2002, to \$180 million as of June 30, 2004, or 10 percent over the 3-year period.

A significant portion of this increase was due to the change in unrestricted net assets. This was primarily due to additional tuition revenues due to Board of Regents approved tuition increases, and increases in Auxiliary Enterprises revenues. Although expenses during this period also increased, the change in revenues exceeded the increased expenses.

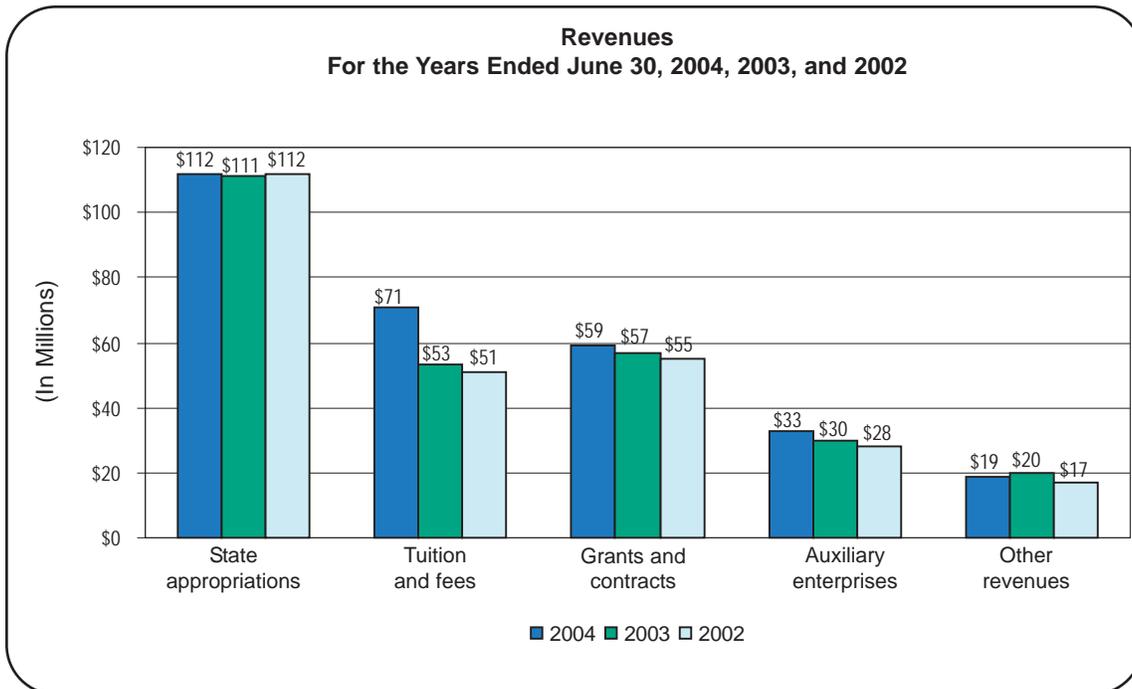
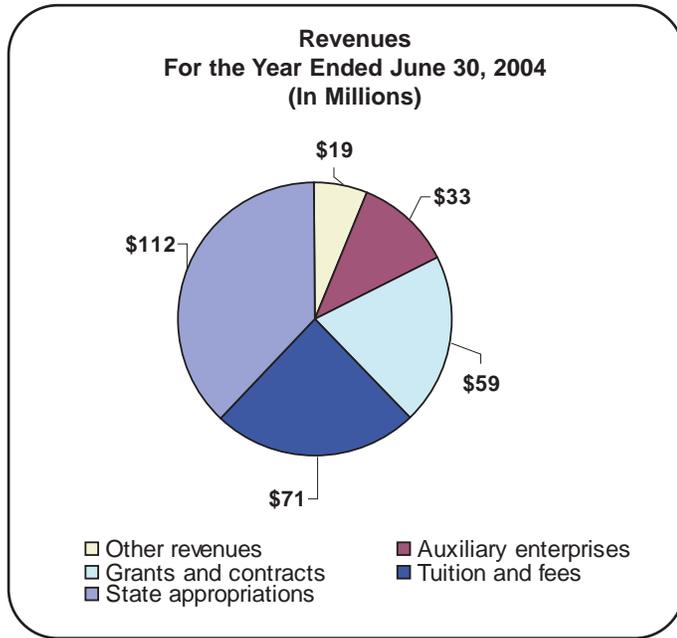


## Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets increased by almost \$15 million.

## Revenues

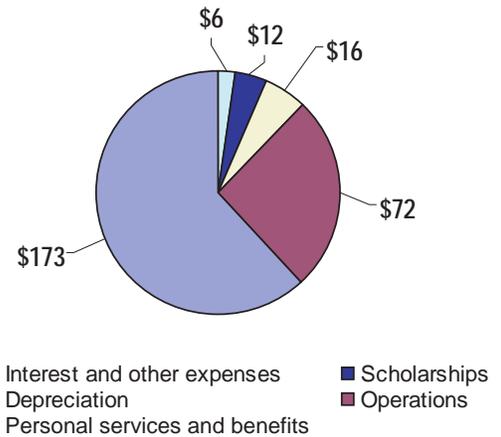
The chart to the right shows the components of the University's operating and nonoperating revenues for the year ended June 30, 2004. State appropriations, tuition and fees, grants and contracts, and auxiliary enterprises comprise 94 percent of the University's total revenues. Between fiscal years 2002 and 2004, total revenues have increased by \$31 million, or 12 percent over the period. As shown in the chart below, the change primarily resulted from increases in tuition and fees revenues, auxiliary enterprises revenues, and grants and contracts revenues. Tuition and fees increased by \$20 million primarily due to tuition rate increases. Auxiliary enterprises increased \$5 million due to increases in housing and food services charges, and grants and contracts increased by \$4 million primarily due to additional federal monies received from the U.S. Department of Education.



## Expenses

The chart to the right shows the components of the University's operating and nonoperating expenses for the year ended June 30, 2004. Personal services and benefits, operations, and depreciation comprise 94 percent of the University's total expenses. Between fiscal years 2002 and 2004, total expenses have increased \$12 million, or 5 percent over the period. As shown in the chart below, the change primarily resulted from increases in salaries and benefits. Salaries and benefits increased \$8 million during the period. These changes primarily resulted from additional costs associated with rising employee benefit costs.

**Expenses**  
For the Year Ended June 30, 2004  
(In Millions)



### TO OBTAIN MORE INFORMATION

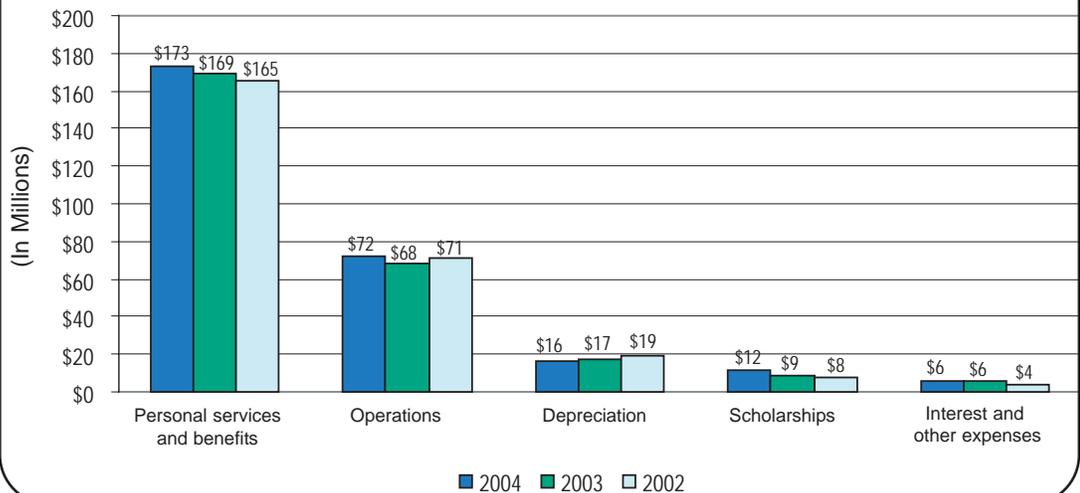
A copy of the full report can be obtained by calling  
**(602) 553-0333**



or by visiting our Web site at:  
[www.auditorgen.state.az.us](http://www.auditorgen.state.az.us)

Contact person for this report:  
Dennis Levine

**Expenses**  
For the Years Ended June 30, 2004, 2003, and 2002



## 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, 2004.

**Cash Flows**  
For the Year Ended June 30, 2004  
(In Millions)

Cash flows from:	
Operating activities	\$ (96)
Noncapital financing activities	126
Capital financing activities	(9)
Investing activities	<u>2</u>
Net increase in cash and cash equivalents	<u>\$ 23</u>