

NACUBO 2007 Financial Statements

For the Years Ended May 31, 2007 and 2006

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
National Association of College
and University Business Officers



We have audited the accompanying statements of financial position of the National Association of College and University Business Officers (NACUBO) for the years ended May 31, 2007 and 2006, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of NACUBO's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NACUBO as of May 31, 2007 and 2006, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental statements of activities by natural classification are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information, except for the portion marked "unaudited," on which we express no opinion, has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Raffa, P.C.

Raffa, P.C.

Washington, D.C.
September 11, 2007

STATEMENTS OF FINANCIAL POSITION
May 31, 2007 and 2006

	2007	2006
ASSETS		
Cash and cash equivalents (Notes 1b, 6 and 7)	\$4,132,926	\$5,988,290
Investments (Notes 1d and 3)	5,561,444	4,414,611
Accounts receivable, net (Notes 1e and 2)	919,368	280,247
Inventory (Note 1c)	366,801	363,270
Prepaid expenses and other assets (Notes 1h and 6)	905,734	636,126
Net property and equipment (Notes 1f and 4)	2,060,208	606,390
TOTAL ASSETS	\$13,946,481	\$12,288,934
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$2,734,574	\$2,845,971
Deferred membership and subscription revenue (Note 1h)	3,747,749	3,682,112
Deferred conference revenue (Notes 1h and 6)	1,977,186	2,322,031
Line of credit (Note 9)	500,000	—
Capital lease obligations	—	25,394
Deferred rent and construction allowance (Note 6)	1,120,612	62,004
TOTAL LIABILITIES	10,080,121	8,937,512
Net Assets		
Unrestricted (Note 1g)	3,813,954	3,298,650
Temporarily restricted (Note 1g)	3,906	4,272
Permanently restricted (Notes 1g and 5)	48,500	48,500
TOTAL NET ASSETS	3,866,360	3,351,422
TOTAL LIABILITIES AND NET ASSETS	\$13,946,481	\$12,288,934

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF ACTIVITIES
For the Years Ended May 31, 2007 and 2006

	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Membership dues	\$6,343,554	\$6,065,869
Conference, workshops, seminars and sponsorships	4,578,753	4,593,141
Advertising	1,025,794	1,105,955
Publications and other products	675,021	828,327
Grants, contributions and other sponsorships	229,000	257,500
Donated publication services (Note 1i)	250,000	250,000
Investment income	408,942	249,648
Fees for services	57,622	79,481
Other	45,844	52,204
Net assets released from restrictions:		
Satisfaction of program restrictions	2,366	18,650
Total Unrestricted Revenue and Support	13,616,896	13,500,775
Expenses		
Program services		
Conference, workshops and seminars	4,940,740	4,650,682
Other member services	4,282,299	4,446,424
Publications and other products (Note 1i)	1,094,347	1,176,782
Total Program Services	10,317,386	10,273,888
Supporting services		
Administration	2,788,344	2,459,838
Fundraising	321,583	344,462
Membership retention and development	281,136	120,221
Total Supporting Services	3,391,063	2,924,521
Total Expenses	13,708,449	13,198,409
CHANGE IN UNRESTRICTED NET ASSETS BEFORE UNREALIZED GAIN ON INVESTMENTS	(91,553)	302,366
Unrealized gain on investments	606,857	199,259
CHANGE IN UNRESTRICTED NET ASSETS	515,304	501,625
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	—	17,000
Investment income	2,000	1,455
Net assets released from restrictions:		
Satisfaction of program restrictions	(2,366)	(18,650)
CHANGE IN TEMPORARILY RESTRICTED NET ASSETS	(366)	(195)
CHANGE IN NET ASSETS	514,938	501,430
NET ASSETS, BEGINNING OF YEAR	3,351,422	2,849,992
NET ASSETS, END OF YEAR	\$3,866,360	\$3,351,422

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2007 and 2006
Increase (Decrease) in Cash and Cash Equivalents

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$514,938	\$501,430
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	392,660	376,009
Bad debts	226,111	238,635
Realized loss (gain) on investments	1,563	(24,280)
Unrealized gain on investments	(606,857)	(199,259)
Loss on disposal of furniture and equipment	90,582	—
Changes in assets and liabilities:		
Accounts receivable	(865,232)	(26,385)
Inventory	(3,531)	47,030
Prepaid expenses and other assets	(269,608)	262,860
Accounts payable and accrued expenses	(111,397)	948,164
Deferred membership and subscription revenue	65,637	(75,895)
Deferred conference revenue	(344,845)	353,226
Deferred rent and construction allowance	1,058,608	(38,964)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	148,629	2,362,571
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(1,240,666)	(1,091,627)
Sales of investments	699,127	909,264
Purchases of furniture, equipment and software	(1,937,060)	(177,510)
NET CASH USED IN INVESTING ACTIVITIES	(2,478,599)	(359,873)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from line of credit	500,000	—
Principal payments under capital lease obligations	(25,394)	(17,886)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	474,606	(17,886)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,855,364)	1,984,812
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,988,290	4,003,478
CASH AND CASH EQUIVALENTS, END OF YEAR	\$4,132,926	\$5,988,290
SUPPLEMENTAL CASH FLOW INFORMATION		
Taxes paid	\$192,646	\$126,500
Interest paid	\$6,692	\$2,032

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the Years Ended May 31, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies

a. Organization

The National Association of College and University Business Officers (NACUBO) is a professional membership association serving chief business and financial officers of member colleges and universities. Its purpose is to develop, promote, and improve business and financial principles and practices in the administration of higher education, as well as to foster professional ideals and standards among its members. NACUBO provides these benefits to its members primarily through meetings, workshops and publications. These activities are funded primarily through membership dues, conference and workshop fees and publication sales.

b. Cash and Cash Equivalents

NACUBO considers money market funds and certificates of deposit with a purchased maturity date of three months or less to be cash equivalents. Also included in cash and cash equivalents at May 31, 2006 is \$2,598,823 related to the joint conference discussed in Note 6.

c. Inventory

Inventory consists of publications for resale and is valued at the lower of cost or market value using the average cost method.

d. Investments

Investments are comprised of mutual funds and certificates of deposit and are recorded in the accompanying statements of financial position at fair value based on quoted market prices.

e. Accounts Receivable

Accounts receivable are primarily from conferences, workshops, advertising, publications, and professional services provided to other organizations. Also included in accounts receivable as of May 31, 2007 is the portion of the construction allowance related to NACUBO's new office space which has not been reimbursed by the landlord. NACUBO uses the allowance method to reserve for uncollectible accounts.

f. Property and Equipment

Property and equipment are recorded at cost and depreciated using the straight-line method over estimated useful lives of three to ten years, with no salvage value. Leasehold

improvements are amortized using the straight-line method over the term of the lease. Expenditures for major repairs and improvements are capitalized; expenditures for minor repairs and maintenance are expensed as incurred. Upon the retirement or disposal of the assets, the cost and accumulated depreciation are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses as appropriate.

g. Classification of Net Assets

The net assets of NACUBO are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of NACUBO's operations. As of May 31, 2007 and 2006, \$483,045 and \$114,699, respectively, of unrestricted net assets have been designated by the board of directors to establish a reserve fund for board approved special initiatives or activities.
- Temporarily restricted net assets are specifically restricted by donors for various programs.
- Permanently restricted net assets represent funds that require the principal to be maintained in perpetuity.

h. Revenue and Expense Recognition

Membership dues are recognized as revenue in the membership period to which the dues relate. Accordingly, dues paid by members in advance of the membership period are reported as deferred membership revenue in the accompanying statements of financial position.

Revenue and the related costs of the conference, workshops and seminars are recognized in the year in which the conference, workshops or seminars are held. Accordingly, registrations received in advance of the conference, seminar or workshop is recorded as deferred conference revenue in the accompanying statements of financial position. Expenses paid in advance of the conference, workshop or seminar are recorded as prepaid expenses and other assets in the accompanying statements of financial position.

Publication revenue is recorded when the related publication is shipped and is reported in the accompanying statements of activities net of any discounts. Subscription revenue is recorded as deferred subscription revenue upon receipt and is recognized as revenue ratably over the subscription period.

NACUBO reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended May 31, 2007 and 2006

that limit the use of donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Unrestricted contributions, grants and sponsorships are reported as revenue in the year in which the payments are received and/or unconditional promises are made.

i. Donated Publication Services

Donated services are recorded as donated publication services revenue at their estimated fair market. Services include the value of the administration of the annual NACUBO Endowment Study. As of May 31, 2007 and 2006 the donated staff time totaling \$250,000 for each year has been recorded as donated publication services revenue and is included in publications and other products expense in the accompanying statements of activities.

j. Allocation of Expenses

The costs of providing the various programs and activities have been summarized by program and supporting services in the accompanying statements of activities. Expenses which are not directly charged to a program or supporting service are allocated among the programs and supporting services based upon salaries.

k. 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 certain reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

2. Accounts Receivable

As of May 31, 2007 and 2006, accounts receivable was comprised of amounts due for the following:

	2007	2006
Construction allowance	\$533,709	\$-
Professional fees	159,500	75,000
Advertising	155,362	165,543
Conference, workshops and seminars	63,727	50,922
Other	33,286	33,717
Publications	10,934	16,997
Total	<u>956,518</u>	<u>342,179</u>
Less: Allowance for doubtful accounts	<u>(37,150)</u>	<u>(61,932)</u>
Accounts receivable, net	<u>\$919,368</u>	<u>\$280,247</u>

3. Investments

As of May 31, 2007 and 2006, investments consisted of the following at fair value:

	2007	2006
Mutual funds	\$5,461,456	\$4,215,194
Certificates of deposit	99,988	199,417
	<u>\$5,561,444</u>	<u>\$4,414,611</u>

For the years ended May 31, 2007 and 2006, investment income, including interest earned on NACUBO's cash accounts, consisted of the following:

	2007	2006
Unrealized gains	\$606,857	\$199,259
Dividends and interest	412,505	226,823
Realized (loss) gain	(1,563)	24,280
	<u>\$1,017,799</u>	<u>\$450,362</u>

During the years ended May 31, 2007 and 2006, NACUBO paid investment management fees of \$37,084 and \$45,304, respectively, which are not included in investment income.

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended May 31, 2007 and 2006

4. Property, Equipment and Related Depreciation and Amortization

As of May 31, 2007 and 2006, NACUBO held the following property and equipment:

	2007	2006
Leasehold improvements	\$1,317,690	\$142,888
Software	1,140,721	1,113,866
Furniture	473,553	528,621
Equipment	155,804	412,598
Total	<u>3,087,768</u>	<u>2,197,973</u>
Less: accumulated depreciation and amortization	(1,027,560)	(1,591,583)
Net property and equipment	<u>\$2,060,208</u>	<u>\$606,390</u>

5. Permanently Restricted Net Assets

As of May 31, 2007 and 2006, NACUBO held the following permanently restricted net assets:

	2007	2006
Rodney Adams award	\$20,000	\$20,000
Dan Robinson award	20,000	20,000
Professional development award	8,500	8,500
Total	<u>\$48,500</u>	<u>\$48,500</u>

6. Commitments

Joint Conference NACUBO entered into a memorandum of understanding dated January 1, 2005 with the Association of Higher Education Facilities Officers (APPA) and the Society for College and University Planning (SCUP) to jointly hold their 2006 annual conferences. The memorandum of understanding stipulates that net revenues and/or net expenses will be allocated among NACUBO, APPA, and SCUP based on a predetermined proportionate share which is 60%, 8%, and 32%, respectively. Certain revenues, such as interest revenue, and certain expenses, such as travel and staff support, were budgeted separately for each organization. These revenue and expense items are included in the table below. Additionally, the memorandum stipulates that in the case of a liability lawsuit, the financial liability will be shared proportionally based upon the percentage attendance from each of the three organizations. Under the agreement, NACUBO is responsible for collecting all revenue and paying all expenses related to the joint conference. The following activity has been incurred related to the joint conference as of May 31:

	2007			
	NACUBO	SCUP	APPA	Total
Revenue Collected	\$2,541,179	\$1,341,962	\$335,490	\$4,218,631
Expenses Incurred	(1,511,735)	(773,759)	(125,565)	(2,411,059)
Total Earned by Each Entity	<u>\$1,029,444</u>	<u>\$568,203</u>	<u>\$209,925</u>	<u>\$1,807,572</u>
	2006			
	NACUBO	SCUP	APPA	Total
Revenue Collected	\$2,234,325	\$1,191,640	\$297,910	\$3,723,875
Expenses Incurred	(375,031)	(200,017)	(50,004)	(625,052)
Partial Distribution	(300,000)	(160,000)	(40,000)	(500,000)
Total Owed to Each Entity	<u>\$1,559,294</u>	<u>\$831,623</u>	<u>\$207,906</u>	<u>\$2,598,823</u>

As of May 31, 2006 NACUBO's share of the expenses and revenue are included in the accompanying statements of financial position as prepaid expenses and other assets and deferred conference revenue, respectively. During the year ended May 31, 2007, the joint conference was held and NACUBO recognized its share of the expenses and revenue in the accompanying statements of activities. The amounts due to APPA and SCUP as of May 31, 2006 are included in accounts payable and accrued expenses in the accompanying statements of financial position. All amounts were paid to APPA and SCUP as of May 31, 2007. All activity related to the joint conference was handled out of a checking account designated specifically for the joint conference. The balance of designated cash was \$2,598,823 as of May 31, 2006 of which \$198,501 was included in NACUBO's operating cash account. Total designated cash of \$2,598,823 as of May 31, 2006 is included in cash and cash equivalents in the accompanying statements of financial position.

Office Lease During the year ending May 31, 2007 NACUBO entered into a non-cancelable operating lease for its new office space which expires in August 2017. The lease provides for four months of free rent and for adjustments to the future minimum rental payments. Additionally, under the terms of this lease, NACUBO received from the landlord a leasehold improvements allowance of \$1,079,850 as an incentive to enter into the lease agreement. Under accounting principles generally accepted in the United States of America (GAAP)

NOTES TO THE FINANCIAL STATEMENTS
For the Years Ended May 31, 2007 and 2006

all rental payments, including fixed rent increases, less any rental abatements, are recognized on a straight-line basis over the term of the lease. Lease incentives are amortized over the life of the lease on a straight-line basis as an offset to rent expense. The difference between the GAAP rent expense and the required lease payment is reflected as deferred rent and construction allowance in the accompanying statements of financial position. Rent expense for the years ended May 31, 2007 and 2006 was \$700,137 and \$491,825, respectively.

As of May 31, 2007, future minimum rental payments under this lease are as follows:

For the Years Ending	
May 31,	
2008	\$627,712
2009	908,048
2010	930,673
2011	953,984
2012	977,785
2013 and thereafter	5,670,167
Total	<u>\$10,068,369</u>

NACUBO's operating lease for its previous office space was scheduled to expire in August 2007. During the year end May 31, 2007, NACUBO vacated this office space and moved into the new office space. In accordance with GAAP, a liability related to the early termination of the lease has been recognized equivalent to the remaining lease payments, net of remaining sublease rental income. As of May 31, 2007 this liability of \$124,812 is included in accounts payable and accrued expenses in the accompanying statements of financial position.

Contracts NACUBO has entered into various agreements for hotel accommodations for its future planned conferences. In the event that NACUBO were to cancel these reservations or fail to use a specified percentage of the total space reserved, NACUBO would be required to pay liquidated damages based upon the date the hotel was notified of the cancellation or reduction in requested rooms as well as the hotel's ability to fill the resulting vacancies. Management of NACUBO does not believe that any of these commitments will result in a loss due to liquidated damages. Accordingly, no amount for this potential liability has been reflected in the accompanying financial statements. Additionally, NACUBO has purchased an insurance policy to mitigate any potential losses.

7. Concentration of Credit Risk

NACUBO's cash is held in accounts at various financial institutions. Although the amount at a given bank at times exceeds the amount guaranteed by the Federal Deposit Insurance Corporation and, therefore, bears some risk, NACUBO has neither experienced nor anticipates any losses on its funds. As of May 31, 2007 and 2006, the amount in excess of the Federal Deposit Insurance Corporation insured limit of \$100,000 was approximately \$252,000 and \$302,000, respectively.

8. Pension Plan

NACUBO has a defined contribution pension plan available to all full-time employees who have completed one year of service. The plan is funded through the purchase of retirement annuity contracts for employees who are covered under the plan. For the years ended May 31, 2007 and 2006, total pension expense was approximately \$488,000 and \$454,000, respectively.

9. Line of Credit

NACUBO holds an unsecured revolving line of credit with M&T Bank in the amount of \$1,500,000 which expires October 20, 2007. Amounts drawn on this line accrue interest at 1.3% below the bank's prime rate until October 20, 2007. On October 20, 2007, any unpaid balance will convert to a note payable. Any amount owed will be paid in 54 monthly installments of principal and interest. Interest will accrue at a fixed rate equal to 1.65% above the bank's cost of funds at the conversion date. The prime rate as of May 31, 2007 was 8.25%.

As of May 31, 2007 NACUBO had an outstanding balance of \$500,000 on this line of credit. NACUBO is required to meet various covenants in accordance with the terms of the agreement which were met as of May 31, 2007.

10. Income Taxes

NACUBO is exempt from the payment of taxes on income other than net unrelated business income under Section 501(c)(3) of the Internal Revenue Code. NACUBO received unrelated business income from advertising that is subject to the unrelated business income tax. Income tax expense of approximately \$156,000 and \$176,500 has been provided for in the years ended May 31, 2007 and 2006, respectively, and is included in administration expenses in the accompanying statements of activities.

SUPPLEMENTAL INFORMATION

STATEMENTS OF ACTIVITIES BY NATURAL CLASSIFICATION
For the Years Ended May 31, 2007 and 2006

	2007		2006	
	2007	Unaudited Budget	2006	Unaudited Budget
Revenue and Support				
Membership dues	\$6,343,554	\$6,216,100	\$6,065,869	\$5,796,740
Conference, meetings and seminars	3,848,883	3,763,625	3,893,091	3,600,815
Advertising sales	1,025,794	1,146,000	1,105,955	1,042,000
Product sales	639,991	820,000	734,327	996,225
Grants, contributions and sponsorships	993,900	1,004,000	1,068,550	1,074,000
Investment income	410,942	205,000	251,103	80,000
Donated publication services	250,000	—	250,000	—
Fees for services	57,622	60,000	79,481	45,200
Other revenue	45,844	93,800	52,204	100,830
Total Revenue and Support	13,616,530	13,308,525	13,500,580	12,735,810
Expenses				
Salaries and benefits	5,186,131	5,383,654	5,137,897	5,222,934
Professional fees	2,260,301	2,136,872	2,404,191	2,136,492
Travel	1,986,952	2,046,280	1,762,846	1,669,495
Production services	1,056,485	1,028,589	951,732	1,172,257
Registration, books and subscriptions	424,351	384,225	492,485	402,756
Rent	700,137	531,245	491,825	520,000
Depreciation and non-capital equipment	535,965	466,810	421,876	394,473
Other	384,049	647,595	396,683	292,573
Taxes and fees	315,542	170,240	292,782	274,524
Donated publication services	250,000	—	250,000	—
Supplies	283,792	177,045	247,239	298,458
Postage and delivery	231,479	200,720	236,365	184,753
Telephone	70,515	120,250	94,738	111,095
Contributions	22,750	15,000	17,750	56,000
Total Expenses	13,708,449	13,308,525	13,198,409	12,735,810
Change in Net Assets Before Unrealized				
Gain on Investments	(91,919)	—	302,171	—
Unrealized Gain on Investments	606,857	—	199,259	—
Change in Net Assets	\$514,938	—	\$501,430	—