

**ARIZONA UNIVERSITY SYSTEM**  
**FY 2007 FINANCIAL RATIO ANALYSIS**



**Arizona State University**  
**Northern Arizona University**  
**The University of Arizona**

**December 18, 2007**







Arizona Board of Regents  
2020 North Central Avenue, Suite 230  
Phoenix, AZ 85004-4593  
602-229-2500  
Fax 602-229-2555  
[www.azregents.edu](http://www.azregents.edu)

---

*Arizona State University*

*Northern Arizona University*

*University of Arizona*

## MEMORANDUM

**TO:** Members, Arizona Board of Regents

**FROM:** Joel Sideman

**DATE:** December 18, 2007

**SUBJECT:** University FY 2007 Financial Reports and Ratio Analysis

---

We are pleased to distribute for your information the FY 2007 audited Financial Reports for Arizona State University, Northern Arizona University, and The University of Arizona, along with the University System FY 2007 Financial Ratio Analysis.

These items will be discussed during the Audit Committee at its next scheduled meeting in conjunction with the January 2008 Board meeting at The University of Arizona. We would like to encourage the members of the Strategic Planning, Budget and Finance Committee to attend this portion of the Audit Committee meeting.

Please contact Kathy Bedard at 602-229-2546 or [kbedard@azregents.edu](mailto:kbedard@azregents.edu) or me at 602-229-2505 if you have questions prior to the meeting.

Enclosures

cc: Michael Crow  
John Haeger  
Robert Shelton

---

*Board Members:* **President Fred T. Boice**, Tucson **Robert B. Bulla**, Scottsdale **Ernest Calderón**, Phoenix  
**Dennis DeConcini**, Tucson **Fred P. DuVal**, Phoenix **Anne L. Mariucci**, Phoenix  
**Christina A. Palacios**, Phoenix **Gary L. Stuart**, Phoenix  
**Governor Janet Napolitano** **Superintendent of Public Instruction Tom Horne**  
*Student Regents:* **Mary Venezia**, NAU **David Martinez III**, UA  
*Executive Director:* **Joel Sideman**

# ARIZONA UNIVERSITY SYSTEM FY 2007 FINANCIAL RATIO ANALYSIS

## EXECUTIVE SUMMARY

### **BACKGROUND:**

Board policy 3-410 requires Arizona State University, Northern Arizona University, and The University of Arizona to provide the Arizona Board of Regents with audited annual financial reports and a ten-year ratio analysis of selected data from the financial reports.

With the changes in financial reporting requirements required with the implementation of GASB 34/35 and 39 in 2002 and 2004, respectively, the universities and central office staff developed 10 new ratios. At its December 2005 meeting, the Board's Audit Committee approved these ratios and requested the universities to report them beginning with FY 2005 financial data, even though implementing the new ratios at that time would result in presentation of only four years of comparative data.

Therefore, this FY 2007 annual financial ratio analysis uses data from the universities' FY 2007 audited financial statements, together with data from five previous annual reports, covering the period July 1, 2001, through June 30, 2007. An additional year of information will be added to this ratio analysis each year until ten years of comparable information is again provided.

Each university has presented 10 ratios over the 6-year period. The ratios serve as indicators of the universities' financial strengths and weaknesses. See pages 5 through 15 for the systemwide ratio analysis and graphs. Ratio formulas are presented on page 16, and ratios are presented by university on pages 17-19. Each university's detailed analysis is presented behind its tab.

### **ANALYSIS:**

#### **Ratio 1:**

State General Fund Appropriations as a percentage of Total Revenue at each university remained relatively stable over the last 4 years, 38% at NAU and 28% at UA, halting the steady decline during the first 3 years of this 6-year reporting period. ASU's FY 2007 ratio increased slightly, 0.2%, over the prior year but declined 7% over the 6-year reporting period. From FY 2002 through FY 2007, ASU's ratio declined from 39% to 32%; NAU's declined from 42% to 38%; and UA's declined from 33% to 28%. The universities state in their analyses that while they anticipate that State General Fund Appropriations will continue to decline as a percentage of Total Revenue, it is expected that such decline will be caused primarily by an overall increase in the universities' revenue base.

**Ratio 2:**

Net Tuition and Fees Revenue as a percentage of Total Revenue remained relatively stable over the last 4 years at NAU (24%) and at UA (15%), while increasing from 27% to 30% at ASU. Over the 6-year reporting period, this ratio shows an increasing reliance on Net Tuition and Fees as a revenue source at ASU and NAU, while UA's reliance, historically lower due to higher levels of research funding, has remained relatively constant over the 6-year reporting period.

**Ratio 3:**

Gifts, Grants, Contracts, and TRIF Revenue as a percentage of Total Revenue increased slightly from FY 2006 to FY 2007 at NAU (0.3%), and decreased slightly at ASU (-1.8%) and at UA (-2.0%). Over the 6-year period, this ratio has decreased from 26% to 22% at ASU; from 24% to 23% at NAU; and from 40% to 38% at UA.

**Ratio 4:**

Other Revenue (auxiliary enterprises revenues, net investment income, and educational department sales and services revenues) as a percentage of Total Revenue fluctuated within a stable range over the 6-year reporting period at all three universities. At ASU this ratio fluctuated from 13-17%; from 13-15% at NAU; and from 13-18% at UA. This fluctuation can be significant from year to year due to land sales, as was the case at ASU in FY 2007 and at UA in FY 2006.

**Ratio 5:**

All three universities covered their current year expenses with current year revenue in FY 2007, thus avoiding the need to deplete net assets to operate the universities.

**Ratio 6:**

All three universities and their component units (see page 4) showed a continuing increasing ability to operate within current year revenue.

**Ratios 7 and 8:**

Ratios 7 and 8 indicate the ability of expendable net assets (those assets available for use for operations) to keep pace with total expenses and the ability of its unrestricted net assets (the subset of expendable net assets that can most quickly be converted to cash) to keep pace with total expenses. ASU's ratios declined over the 6-year reporting period, indicating declining financial strength and declining ability to respond to emergencies or unforeseen needs. However, this decline is slight—less than 1%—between FY 2006 and FY 2007, indicating stabilization of these ratios. UA's FY 2007 ratios improved slightly—1%—over the prior year, indicating increasing financial strength. NAU's FY 2007 ratios increased significantly from the prior year and are at 6-year highs, indicating a new level of financial strength.

**Ratio 9:**

The universities consistently earn solid investment bond ratings by showing adequate capacity to pay interest and to repay principal on debt. The universities continue to maintain strong ratings for both System Revenue Bonds (SRBs) and Certificates of Participation (COPs) from Moody's and from Standard & Poor's. These ratings and outlooks remain unchanged from prior year-end:

- ASU and UA maintained an Aa3 rating on SRBs and an A1 rating on COPs from Moody's; and an AA SRB rating and an AA- COPs rating from S&P. The rating outlook for ASU and UA remains stable, meaning that based upon present debt levels in relation to net assets, a rating is not likely to change over the intermediate term, typically six months to two years. These ratings are in the upper half of the investment grade rating categories.
- NAU maintained an A2 SRB rating and an A3 COPs rating from Moody's; and an A+ SRB rating and an A COPs rating from S&P. The rating outlook for NAU from Moody's remains positive, and the S&P rating is stable.

The most recent Moody's and Standard & Poor's analyses are available upon request from the universities.

Debt ratios for all three universities have consistently remained in the 3-6.5% range over the 6-year reporting period and remain well within the 10% range recommended by rating agencies. These ratios are expected to increase significantly at all three universities beginning in FY 2008 as debt service payments, funded by HB 2529 research infrastructure State General Fund Appropriations, begin for newly constructed research facilities.

**Ratio 10:**

Total financial resources of both the university and its component units (see page 4) as a proportion of the total direct debt of the university and its component units increased significantly over the 4-year period at UA but decreased at both ASU and NAU. However, both ASU's and NAU's ratios rebounded in FY 2007 from a continuing decline during the first 3 years of the reporting period. At June 30, 2007, UA had sufficient financial resources to pay 102% of its total debt; ASU and NAU each had sufficient resources to pay 47% of total debt.

**CONCLUSION:**

The 30 ratios presented in this analysis point to a university system operating within its available revenues; maintaining acceptable levels of debt and having the capacity for future additional debt financings; and increasing in financial strength and flexibility, as of June 30, 2007.

## **UNIVERSITY COMPONENT UNITS AS DEFINED BY GASB 14 AND GASB 39**

### **Arizona State University:**

- ASU Foundation
- Arizona Capital Facilities Finance Corporation (ACFFC)
- ASU Alumni Association
- Collegiate Golf Foundation
- Mesa Student Housing, LLC
- Arizona State University Research Park, Inc.
- Sun Angel Endowment
- Sun Angel Foundation

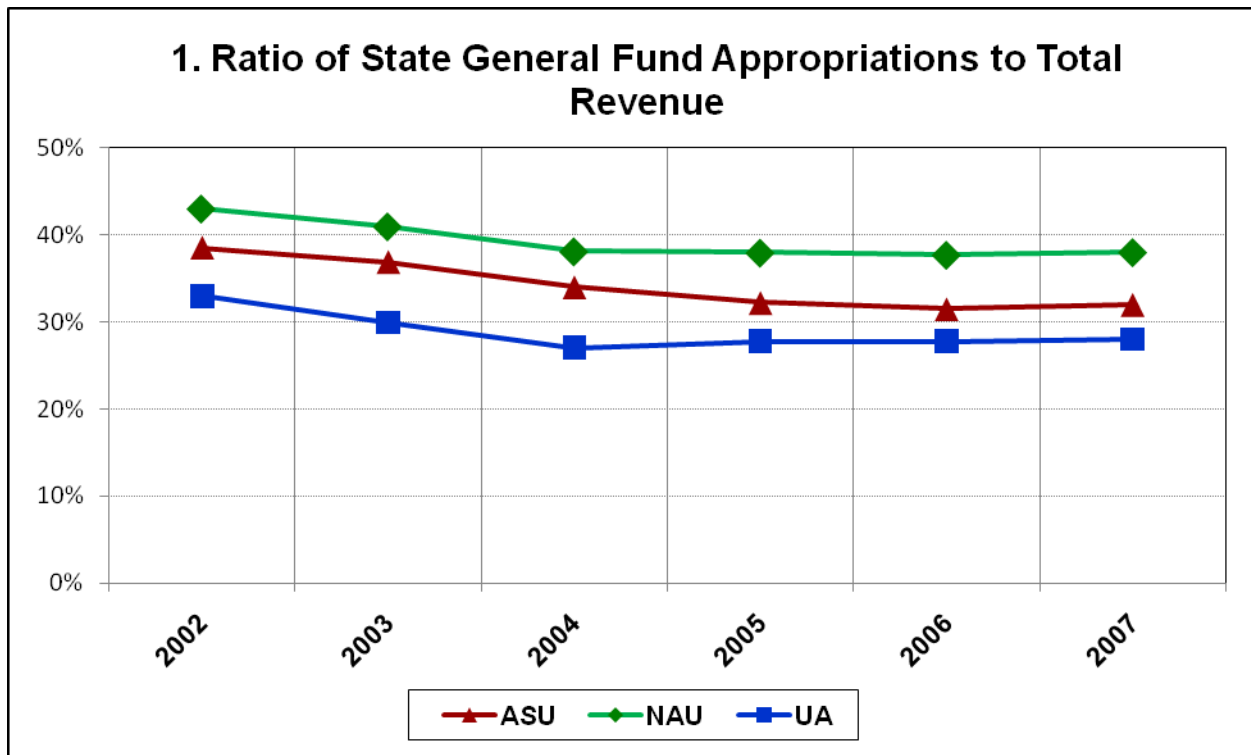
### **Northern Arizona University:**

- Northern Arizona University Foundation, Inc.
- Northern Arizona Capital Facilities Finance Corporation (NACFFC)

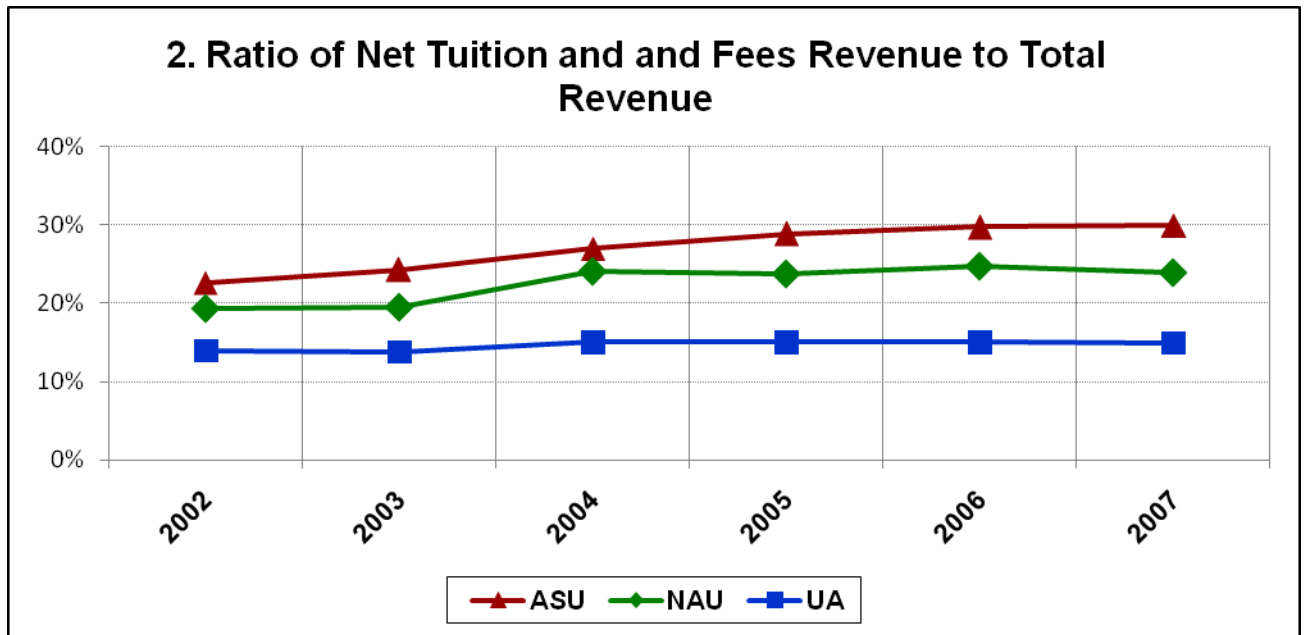
### **The University of Arizona:**

- The University of Arizona Foundation, Inc.
- The University of Arizona Alumni Association
- Law College Association of The University of Arizona
- Campus Research Corporation

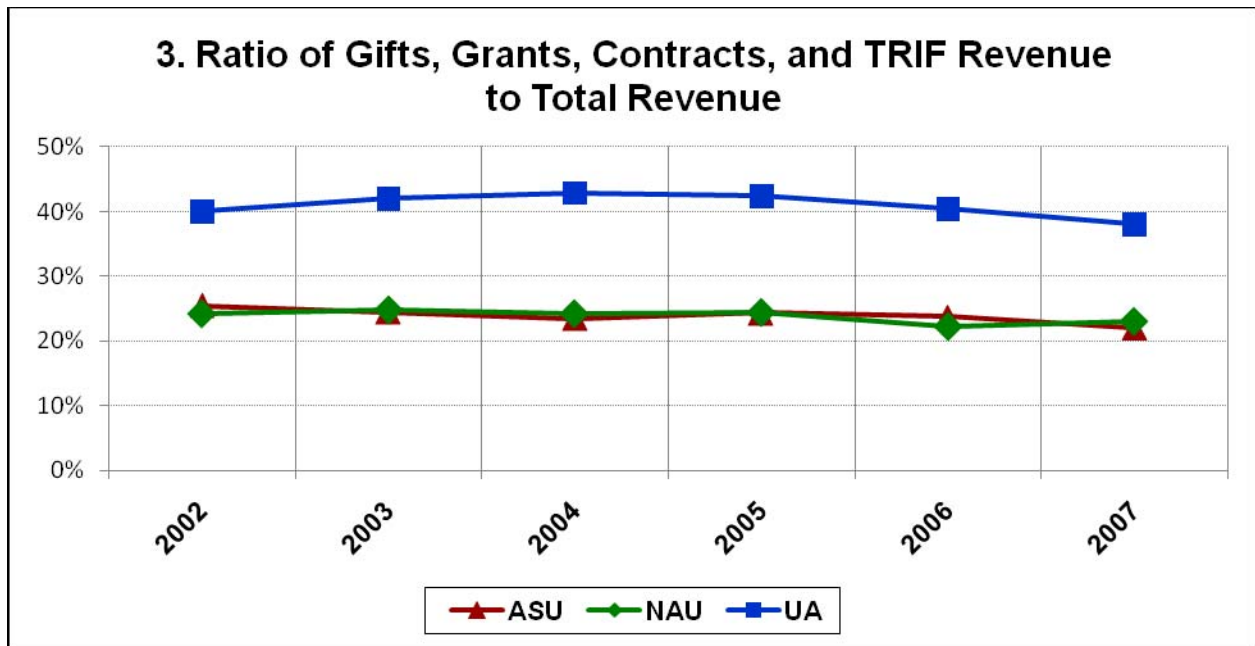
Ratio 1	Description of Ratio
<p data-bbox="186 304 384 436"><b>State General Fund Appropriations</b> <b>Total Revenue</b></p> <p data-bbox="170 472 401 504"><b>FY 2007 RATIOS</b></p> <p data-bbox="159 550 412 613"><b>ASU</b>   <b>NAU</b>   <b>UA</b> <b>32%</b>   <b>38%</b>   <b>28%</b></p>	<p data-bbox="443 300 1469 466"><i>Element definition:</i> <b>State General Fund Appropriations</b> are state of Arizona legislative General Fund appropriations to the universities and do not include university tuition collections remitted to the state by the universities and then appropriated back to the universities. <b>Total Revenue</b> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="443 501 1469 667">State General Fund Appropriations as a percentage of Total Revenue remained constant at all three universities from FY 2006 to FY 2007. Over the most recent 4 years, NAU's and UA's ratios remained constant at 38% and 28%, respectively, while ASU's ratio decreased from 34% in FY 2004 to 32% in FY 2007.</p> <p data-bbox="443 703 1469 898">During the 6-year period covered by this analysis, FY 2002-FY 2007, this ratio declined at ASU from 39% to 32%; at NAU from 42% to 38%; and at UA from 33% to 28%. The universities state in their analyses that while they anticipate that State General Fund Appropriations will continue to decline as a percentage of Total Revenue, it is expected that such decline will be caused primarily by an overall increase in the universities' revenue base.</p>



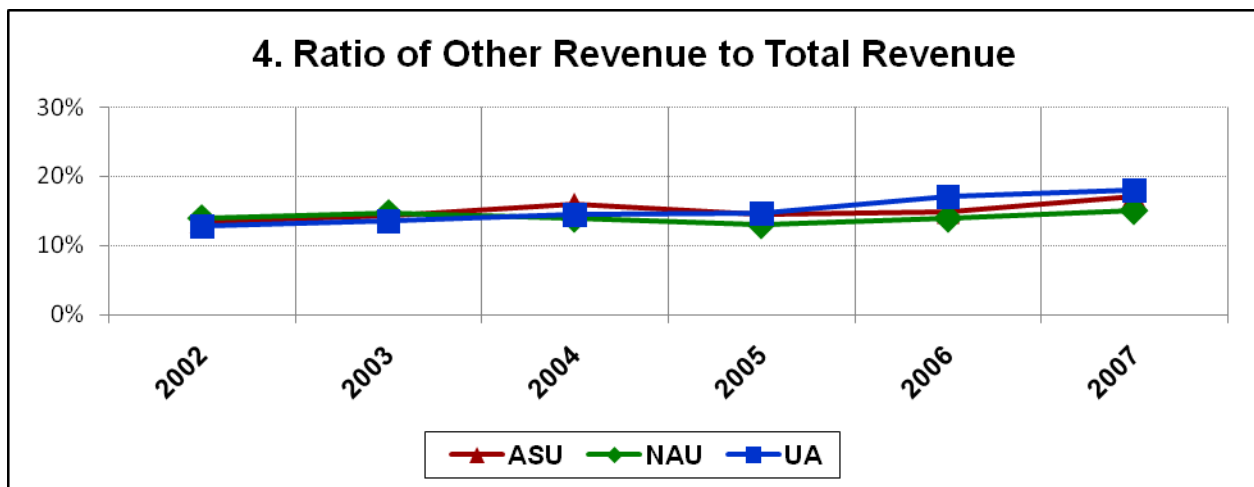
Ratio 2	Description of Ratio						
<p data-bbox="159 310 412 373"><b>Net Tuition &amp; Fees</b> <b>Total Revenue</b></p> <p data-bbox="170 411 401 443"><b>FY 2007 RATIOS</b></p> <table data-bbox="154 478 412 548"> <tr> <td><b>ASU</b></td> <td><b>NAU</b></td> <td><b>UA</b></td> </tr> <tr> <td><b>30%</b></td> <td><b>24%</b></td> <td><b>15%</b></td> </tr> </table>	<b>ASU</b>	<b>NAU</b>	<b>UA</b>	<b>30%</b>	<b>24%</b>	<b>15%</b>	<p data-bbox="444 310 1466 411"><i>Element definition: Net Tuition and Fees are tuition and fees paid by students and are net of scholarship allowances. Total Revenue includes operating, nonoperating, and other revenue and gains.</i></p> <p data-bbox="444 443 1466 575">Net Tuition and Fees as a percentage of Total Revenue remains unchanged from the prior year at all three universities. Additionally, this ratio has stabilized at NAU and UA at 24% and 15%, respectively, over the last 4 years, while ASU's ratio has stabilized between 29% and 30% over the last 3 years.</p> <p data-bbox="444 611 1466 711">The 6-year change at ASU (23% to 30%) and NAU (19% to 25%) shows an increasing reliance on Net Tuition and Fees as a revenue source, while UA's reliance has remained in the 14-15% range.</p>
<b>ASU</b>	<b>NAU</b>	<b>UA</b>					
<b>30%</b>	<b>24%</b>	<b>15%</b>					



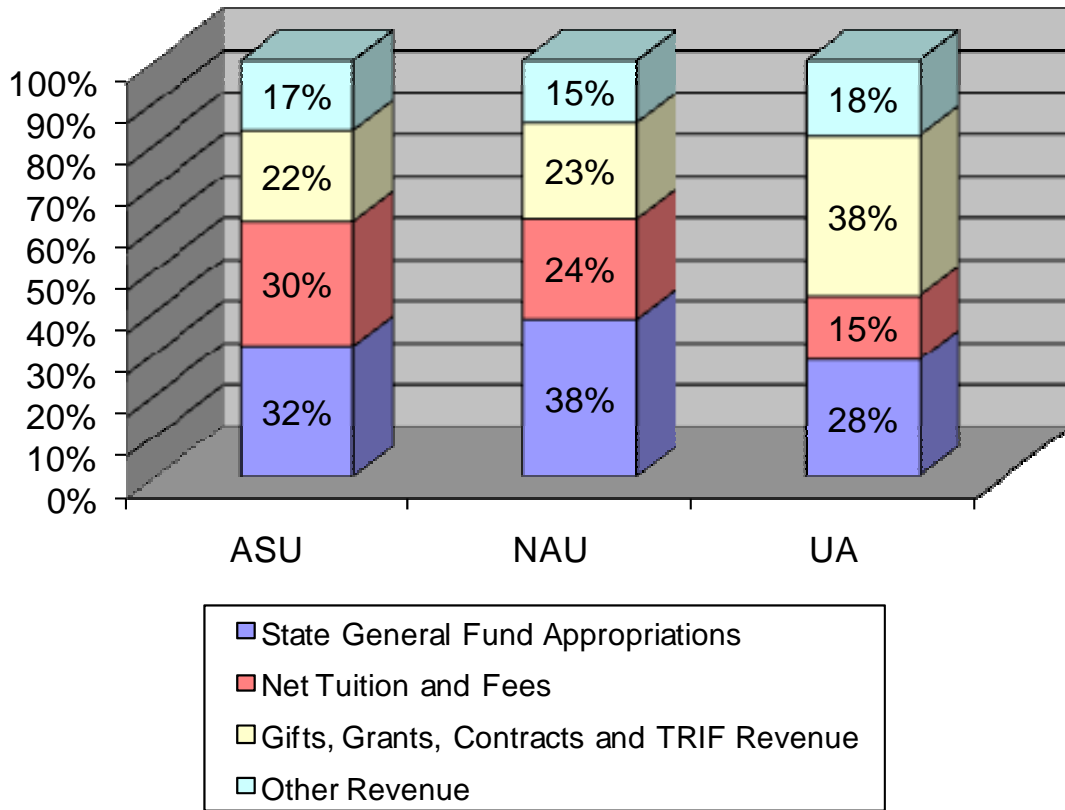
Ratio 3	Description of Ratio
<p data-bbox="167 310 407 441"><b>Gifts, Grants, Contracts &amp; TRIF Revenue</b> <b>Total Revenue</b></p> <p data-bbox="167 474 407 510"><b><u>FY 2007 RATIOS</u></b></p> <p data-bbox="159 548 415 615"><b><u>ASU</u></b>   <b><u>NAU</u></b>   <b><u>UA</u></b> <b>22%</b>   <b>23%</b>   <b>38%</b></p>	<p data-bbox="440 310 1466 510"><i>Element definition:</i> <b>Gifts, Grants, and Contracts</b> come from private donors, additions to endowments, and government (primarily federal) and private research grants and contracts. <b>TRIF Revenue</b> is ABOR's share of state sales tax revenue approved under Proposition 301 (November 2000). <b>Total Revenue</b> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="440 543 1466 709">Total Gifts, Grants, Contracts, and TRIF Revenue as a percentage of Total Revenue decreased slightly at ASU (-1.8%) and at UA (2%) in FY 2007 from the prior year, while increasing slightly (0.3%) at NAU. Over the 6-year period, this percentage has decreased from 26% to 22% at ASU; from 24% to 23% at NAU; and from 40% to 38% at UA.</p> <p data-bbox="440 743 1466 909">UA's greater restricted funding from the federal government and private donors causes its ratio to diverge from ASU's and NAU's. As research continues to ramp up in FY 2008 and thereafter in all three universities' new research buildings, more federal and other research grants and contracts should generate increased funding, and this ratio should increase.</p>



Ratio 4	Description of Ratio
<p data-bbox="180 306 391 369"><u>Other Revenue</u> Total Revenue</p> <p data-bbox="168 407 402 438"><b>FY 2007 RATIOS</b></p> <p data-bbox="159 478 412 541"><u>ASU</u>    <u>NAU</u>    <u>UA</u> 17%    15%    18%</p>	<p data-bbox="443 296 1468 432"><b>Element definition:</b> <i>Other Revenue</i> includes auxiliary enterprises revenue, investment income, and all other revenue, both operating and nonoperating, not included in the numerators of Ratios 1, 2, and 3. <i>Total Revenue</i> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="443 464 1468 663">Other Revenue as a percentage of Total Revenue in FY 2007 increased slightly from FY 2006 at ASU (2%) and at UA (1%) and decreased slightly at NAU (-0.1%). Over the 6-year period, this ratio has fluctuated between 13% and 18% at all three universities. In any given year, this ratio can be significantly impacted by land sales, as is the case in FY 2007 at ASU with an \$18.6 million gain on sale of land and \$3.8 million conveyance of property.</p> <p data-bbox="443 695 1468 831">Other Revenue increased significantly in dollar amount at all three universities over the 6-year reporting period, reflecting the universities' success in maximizing these revenue sources and emphasizing entrepreneurial efforts throughout the universities. Examples include:</p> <ul data-bbox="492 842 1468 1276" style="list-style-type: none"> <li>• Auxiliary enterprises revenues increased at all three universities over the 6-year period. ASU's increased from \$86 million in FY 2002 to \$118 million in FY 2007, a 37% increase; NAU's increased from \$28 million to \$39 million, a 40% increase; and UA's increased from \$96 million to \$144 million, a 50% increase.</li> <li>• Sales and services of educational departments, including conference and seminar registration fees for university-sponsored events, increased at ASU from \$18 million in FY 2002 to \$46 million in FY 2007, a 156% increase, and increased at UA from \$17 million to \$25 million, a 47% increase.</li> <li>• NAU's investment income increased from \$1 million in FY 2002 to \$9 million in FY 2007, reflecting the increasing financial strength of the university resulting in more available funds to invest.</li> </ul>



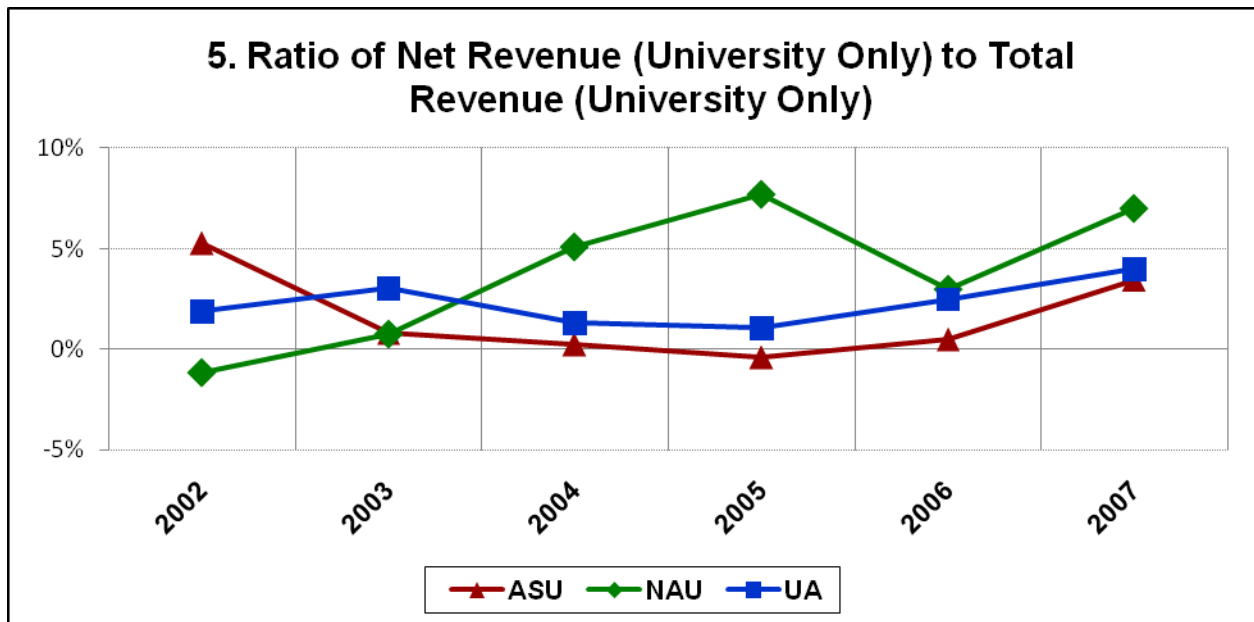
### Composition of University Total Revenue Ratios 1, 2, 3, and 4 Combined



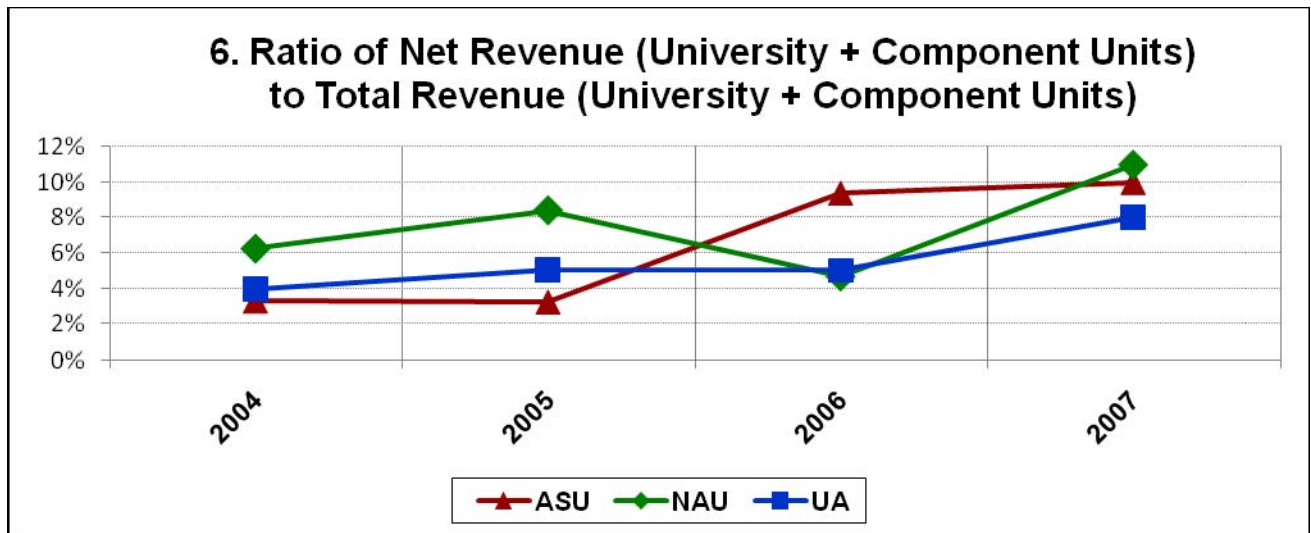
**Notes:**

1. University totals may not equal 100% due to rounding.
2. Each university presents the above bar chart for all 6 years of this reporting period on page 7 of its graphs located behind its tab.

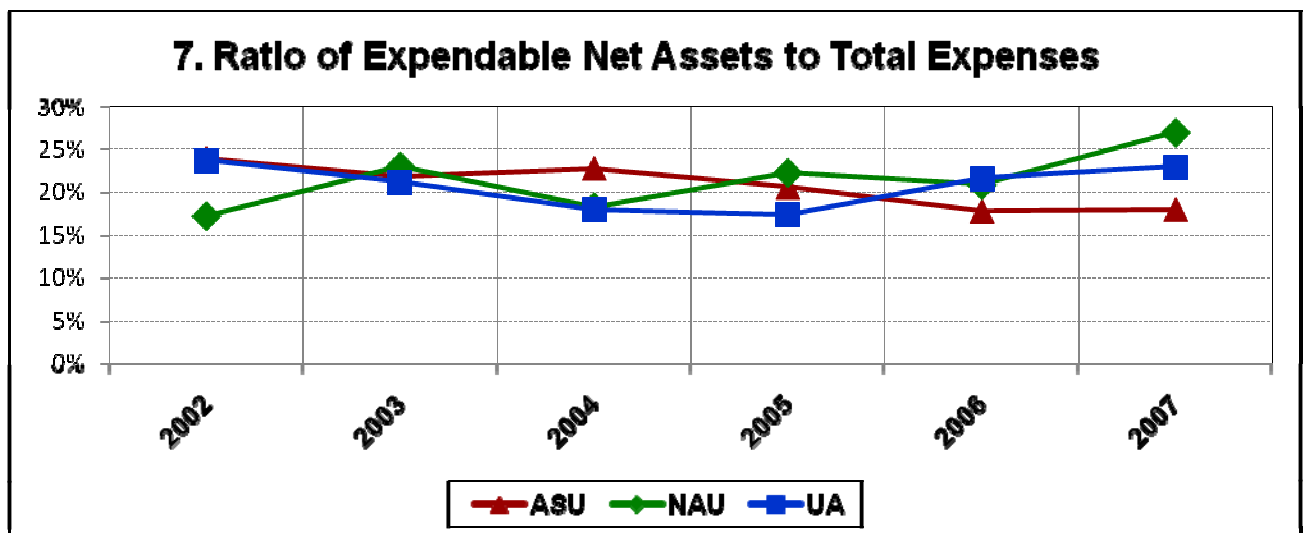
Ratio 5	Description of Ratio						
<p data-bbox="167 306 406 441"><b>Net Revenue (University Only)</b> <b>Total Revenue (University Only)</b></p> <p data-bbox="167 474 406 506"><b><u>FY 2007 RATIOS</u></b></p> <table data-bbox="159 548 406 615"> <tr> <td><b><u>ASU</u></b></td> <td><b><u>NAU</u></b></td> <td><b><u>UA</u></b></td> </tr> <tr> <td>4%</td> <td>7%</td> <td>4%</td> </tr> </table>	<b><u>ASU</u></b>	<b><u>NAU</u></b>	<b><u>UA</u></b>	4%	7%	4%	<p data-bbox="440 306 1471 441"><i>Element definition:</i> <b>Net Revenue</b> equals total revenue less total expenses. <b>Total Revenue</b> includes operating, nonoperating, and other revenue and gains. Both figures are for the university only and do not include component units.</p> <p data-bbox="440 474 1471 575"><b>This ratio indicates whether current year revenues were sufficient to cover current year expenses, thereby avoiding the need to deplete net assets to operate the university.</b></p> <p data-bbox="440 609 1471 709">This ratio has fluctuated over the 6-year reporting period at all three universities, but all three operated well within their current year revenues in FY 2007.</p> <p data-bbox="440 743 1471 1138">ASU's FY 2007 ratio increased to 4% from a 6-year low of -0.4% in FY 2005. ASU finished FY 2007 with a \$47 million excess of Total Revenue (\$1.358 billion) over Total Expenses (\$1.311 billion). This is the strongest operating year for ASU since FY 2002. NAU's FY 2007 ratio increased to 7% from a 6-year low of -1.1% in FY 2002. NAU finished FY 2007 with a \$26 million excess of Total Revenue (\$367 million) over Total Expenses (\$341 million). FY 2007 is the second strongest operating year for NAU in the 6-year reporting period, with FY 2006 being slightly stronger. UA's FY 2007 ratio increased to 4% from a 6-year low of 1% in both FY 2004 and FY 2005. UA finished FY 2007 with a \$62 million excess of Total Revenue (\$1.385 billion) over Total Expenses (\$1.323 billion). FY 2007 is the strongest operating year for UA in the 6-year reporting period.</p>
<b><u>ASU</u></b>	<b><u>NAU</u></b>	<b><u>UA</u></b>					
4%	7%	4%					



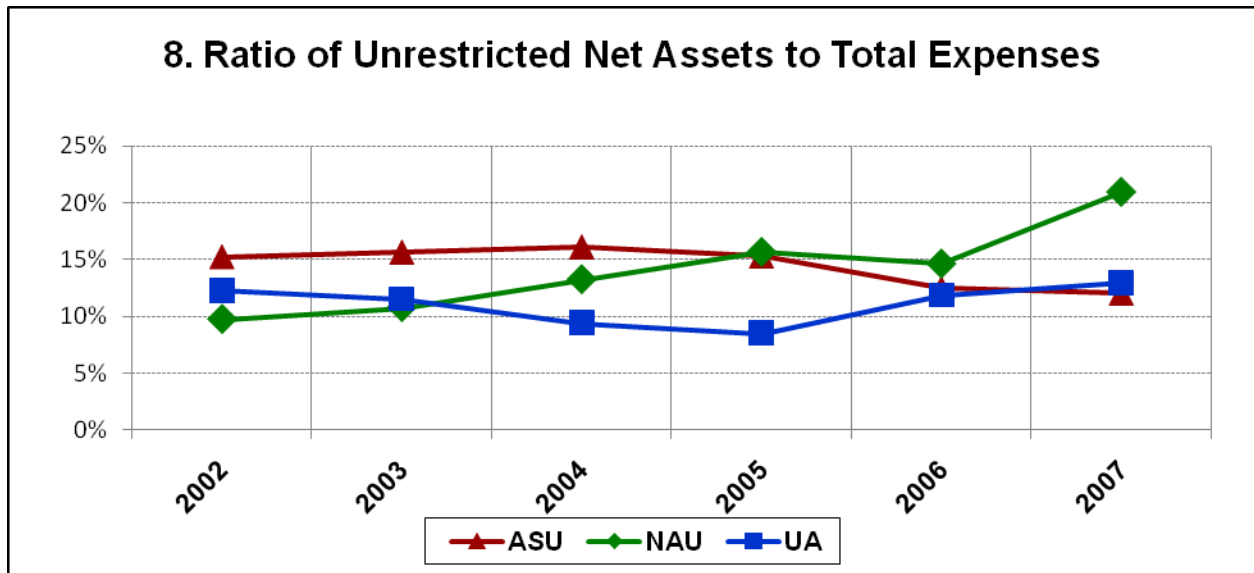
Ratio 6	Description of Ratio
<p data-bbox="159 306 412 506"> <b>Net Revenue (University + Component Units) Total Revenue (University + Component Units)</b> </p> <p data-bbox="168 541 402 573"><b><u>FY 2007 RATIOS</u></b></p> <p data-bbox="159 617 412 680"> <b><u>ASU</u>   <u>NAU</u>   <u>UA</u>  10%   11%   8%</b> </p>	<p data-bbox="444 306 1468 506"> <i>Element definition:</i> <b>Net Revenue</b> equals total revenue less total expenses. <b>Total Revenue</b> includes operating, nonoperating, and other revenue and gains. Both figures are for the university <u>and</u> its component units. Reporting of financial data for component units is required under GASB 39 beginning with FY 2004 financial statements. Each university's component units are listed on page 4. </p> <p data-bbox="444 541 1468 709"> This ratio indicates whether current year revenues of the university and its component units as defined by GASB 14 and 39 were sufficient to cover current year expenses of the university and the component units, thereby avoiding the need to deplete net assets to operate the university and the component units. </p> <p data-bbox="444 745 1468 936"> All three universities and their component units met current year expenses with current year revenues in FY 2007, along with increasing net assets. ASU's ratio over the 4-year reporting period increased from 3% in FY 2004 to 10% in FY 2007; NAU's increased from 6% to 11%; and UA's increased from 4% to 8%. These ratios indicate an increasing ability of the universities and their component units to operate within their current year revenues. </p>



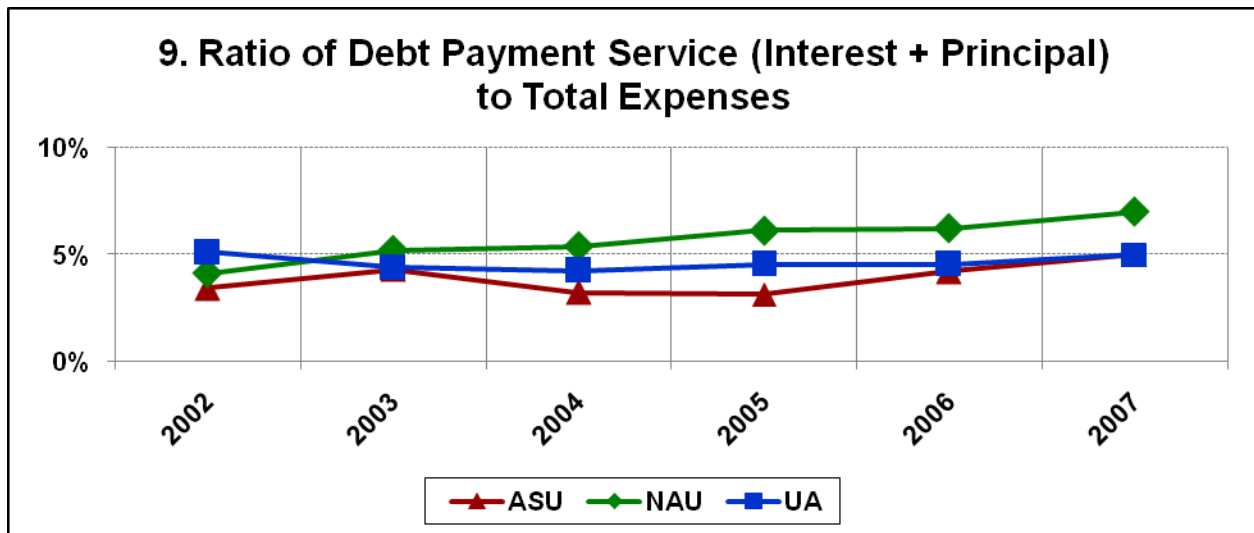
Ratio 7	Description of Ratio						
<p data-bbox="175 306 396 407"><b>Expendable Net Assets</b> <b>Total Expenses</b></p> <p data-bbox="168 443 402 474"><b>FY 2007 RATIOS</b></p> <table data-bbox="159 516 412 579"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>18%</td> <td>27%</td> <td>23%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	18%	27%	23%	<p data-bbox="441 298 1468 464"><b>Element definition:</b> <i>Expendable Net Assets</i> are assets available for use for operations. They include both unrestricted and expendable restricted net assets; they exclude endowments and net assets invested in property. <i>Total Expenses</i> include operating, nonoperating, and other expenses and losses.</p> <p data-bbox="441 491 1468 621">This ratio measures whether or not expendable net assets have kept pace with total expenses and the financial strength of the universities by indicating the percentage of usable Net Assets at the end of the year to Total Expenses.</p> <p data-bbox="441 651 1468 1014">ASU's ratio remained constant from FY 2006 to FY 2007 at 18%. However, it declined from 24% in FY 2002 to 18% in FY 2007, indicating that expendable net assets have not kept pace with total current year expenses and that a declining level of resources was available at year-end to operate the university. NAU's ratio increased significantly from FY 2006 to FY 2007—21% to 27%—and from 17% to 27% over the 6-year reporting period, indicating that NAU's expendable net assets have kept pace with total current year expenses and that an increasing level of resources is available at year-end to operate the university. UA's ratio increased from 22% in FY 2006 to 23% in FY 2007, and from 21% to 23% over the 6-year reporting period, also indicating that expendable net assets have kept pace with total current year expenses.</p> <p data-bbox="441 1043 1468 1205">Explained differently, at June 30, 2007, ASU had approximately 9 weeks (same as at prior year-end) of annual spending available from year-end expendable net assets. NAU and UA had approximately 14 and 12 weeks, respectively, of annual spending available at year-end, compared to 11 weeks for each at prior year-end.</p> <p data-bbox="441 1234 1468 1331">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2007, only. The universities are "going concerns" and, therefore, can expect to receive additional revenues in subsequent years.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
18%	27%	23%					



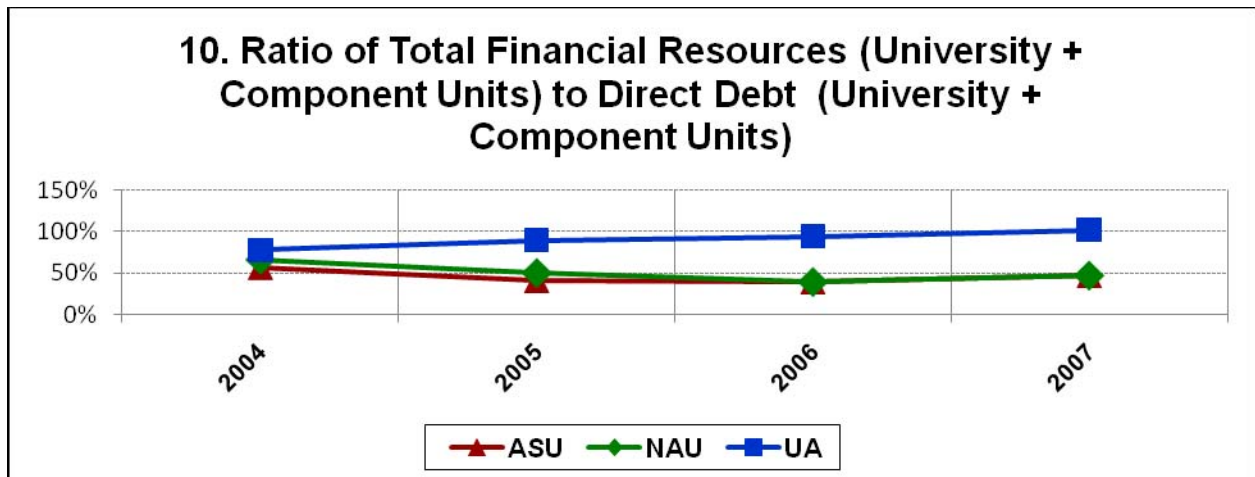
Ratio 8	Description of Ratio						
<p data-bbox="172 306 399 405"><b>Unrestricted Net Assets</b> <b>Total Expenses</b></p> <p data-bbox="172 443 399 474"><b>FY 2007 RATIOS</b></p> <table data-bbox="159 516 412 579"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>12%</td> <td>21%</td> <td>13%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	12%	21%	13%	<p data-bbox="441 306 1468 443"><i>Element definition: Unrestricted Net Assets</i> are a subset of expendable net assets (see Ratio 7) and represent those net assets that can most quickly be converted to cash. <i>Total Expenses</i> include operating, nonoperating, and other expenses and losses.</p> <p data-bbox="441 474 1468 604">This ratio measures the coverage of annual operations by the university's most liquid assets, those unrestricted net assets than can be the most quickly converted to cash. A higher percentage indicates more operating flexibility by the university.</p> <p data-bbox="441 642 1468 940">ASU's ratio of 12% remained constant from FY 2006 to FY 2007, holding in the 15-16% range for the 4 prior years and indicating stabilization in the university's operating flexibility. NAU's FY 2002 ratio of 10% increased steadily to 21% in FY 2007, indicating continued increasing operating flexibility, with a significant increase between FY 2006 and FY 2007—15% to 21%. UA's FY 2002 and FY 2003 ratios of 12% declined to 9% and 8% in FY 2004 and FY 2005, respectively, but rebounded to 12% and 13% in FY 2006 and FY 2007. The FY 2007 ratio is the highest in UA's 6-year reporting period, indicating increasing operating flexibility.</p> <p data-bbox="441 978 1468 1140">Explained differently, at June 30, 2007, ASU had approximately 6 weeks of spending coverage, the same as at prior year-end. NAU had approximately 11 weeks of spending coverage at June 30, 2007, up from 8 weeks at prior year-end. UA had approximately 6-1/2 weeks of spending coverage at June 30, 2007, up from 6 weeks of coverage at prior year-end.</p> <p data-bbox="441 1178 1468 1268">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2007, only. The universities are "going concerns" and, therefore, can expect to receive additional revenues in subsequent years.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
12%	21%	13%					



Ratio 9	Description of Ratio						
<p data-bbox="196 310 375 474"><b>Debt Service Payments (Interest + Principal) Total Expenses</b></p> <p data-bbox="172 510 399 541"><b><u>FY 2007 RATIOS</u></b></p> <table data-bbox="159 583 407 646"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>5%</td> <td>7%</td> <td>5%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	5%	7%	5%	<p data-bbox="443 310 1468 443"><b>Element definition:</b> <i>Debt Service Payments</i> include the interest and principal payments for the university's System Revenue Bonds (SRBs) and Certificates of Participation (COPs). <i>Total Expenses</i> include operating, nonoperating, and other expenses and losses.</p> <p data-bbox="443 474 1468 669">This ratio measures the burden of debt service payments relative to, or as a proportion of, overall expenses of the university. This is one of the key ratios considered by rating agencies to determine ratings for SRBs and COPs. Rating agencies generally view 10% or less as a significant indicator of satisfactory creditworthiness, thus allowing debt instruments to be sold at more favorable interest rates.</p> <p data-bbox="443 709 1468 842">At June 30, 2007, all three universities are well within the acceptable debt ratio range and demonstrate that they have adequate resources to meet existing debt requirements. Moody's and Standard &amp; Poor's bond ratings and outlooks remain unchanged from prior year-end for all three universities.</p> <p data-bbox="443 877 1468 1169">ASU's FY 2007 debt ratio of 4.5% increased slightly over its 4.2% ratio in FY 2006 and remained in the 3-4% range during this 6-year reporting period. NAU's FY 2007 debt ratio of 6.5% remains relatively unchanged from its prior year ratio of 6.2% but is at its highest point in this 6-year reporting period. UA's FY 2007 debt ratio of 5% remained unchanged from the prior year and has remained in the 4-5% range over the 6-year reporting period. All three universities anticipate significant increases in this ratio beginning in FY 2008 when debt service payments, funded by State General Fund Appropriations, begin for newly constructed research facilities.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
5%	7%	5%					



Ratio 10	Description of Ratio						
<p data-bbox="196 176 448 407"><b>Total Financial Resources (University + Component Units)</b> <b>Direct Debt (University + Component Units)</b></p> <p data-bbox="207 443 438 474"><b><u>FY 2007 RATIOS</u></b></p> <table data-bbox="191 520 456 583"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>47%</td> <td>47%</td> <td>102%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	47%	47%	102%	<p data-bbox="483 176 1503 438"><b>Element definition:</b> <i>Total Financial Resources</i> include restricted and unrestricted expendable and nonexpendable net assets of the university, plus permanently and temporarily restricted and unrestricted net assets of the component units, excluding net property and equipment of the component units. <i>Direct Debt</i> is the total outstanding capital debt of the university and its component units. Reporting of financial data for component units is required under GASB 39 beginning with FY 2004 financial statements.</p> <p data-bbox="483 464 1503 590">This ratio measures coverage of debt by all resources available to the university, including those of its component units. A larger percentage indicates the availability of more resources to cover total university and component unit debt.</p> <p data-bbox="483 615 1503 940">ASU's ratio rebounded to 47% in FY 2007 from a steady decline from 57% to 39% in the first 3 years of this 4-year reporting period, indicating an increase in total resources of the university and its component units to cover total university and component unit debt. NAU's ratio rebounded to 47% from a steady decline from 66% to 39% in the prior 3 years, also indicating an increase in total resources of the university and its component units to cover total university and component unit debt. UA's FY 2007 ratio of 102% continued its steady increase from 78% in FY 2004, indicating the increasing availability of university and component unit resources to pay total university and component unit debt.</p> <p data-bbox="483 966 1503 1228">Explained differently, at June 30, 2007, ASU had sufficient financial resources to pay 47% of the total debt of the university and component units, down from 57% at June 30, 2004. NAU had sufficient financial resources to pay 47% of the total debt of the university and component units, down from 66% at June 30, 2004. UA had sufficient financial resources to pay 102% of the total debt of the university and component units, up from 78% at June 30, 2004. These percentages for all three universities indicate an ability to repay all outstanding debt without undue financial hardship.</p> <p data-bbox="483 1253 1503 1379">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2007, only. The universities are "going concerns" and, therefore, payment of the total direct debt is not required as of June 30, 2007, but will be paid off over time.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
47%	47%	102%					



FINANCIAL RATIO FORMULAS

Ratio 1 University only	$\frac{\text{State general fund appropriations}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 2 University only	$\frac{\text{Tuition and Fees, net of scholarship allowance}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 3 University only	$\frac{\text{Gifts, additions to endowments, grants, contracts, and state sales tax share (technology and research initiatives funding)- (Operating/Nonoperating/Capital)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 4 University only	$\frac{\text{Auxiliary enterprises revenues, investment income, and all other revenues (operating and nonoperating) not in the other revenue categories.}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 5 University only	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 6 University and component units	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 7 University only	$\frac{\text{Expendable Net Assets (Unrestricted and expendable restricted net assets)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 8 University only	$\frac{\text{Unrestricted net assets}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 9 University only	$\frac{\text{Debt service payments (interest payments per SRECNA and principal payments per cash flow)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 10 University and component units	$\frac{\text{Total financial resources (unrestricted and restricted - expendable and nonexpendable - net assets of the Univ, plus permanently and temporarily restricted and unrestricted net assets of the component units, less net property and equipment of the component units)}}{\text{Total direct debt (total outstanding capital debt of the Univ and component units)}}$

ARIZONA STATE UNIVERSITY  
Financial Ratios for Fiscal Years: 2002 to 2007  
(dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007
1	State General Fund Appropriations	321	312	313	336	369	430
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only. Fiscal 2007 includes \$7 million in building renewal (capital) appropriations.	38.5%	36.9%	33.5%	32.2%	31.5%	31.7%
2	Net Tuition and Fees Revenue	188	206	253	302	349	400
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only	22.6%	24.3%	27.1%	28.9%	29.8%	29.5%
3	Gifts, Grants & Contracts, and TRIF Revenue	212	207	219	254	279	299
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only.	25.5%	24.5%	23.4%	24.3%	23.8%	22.0%
	TRIF - Technology & initiative research fund. ASU's share of the state education sales tax.						
4	Other Revenues	112	121	150	152	175	229
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only	13.4%	14.3%	16.0%	14.6%	14.9%	16.9%
5	Net Revenues	44	7	2	(4)	6	47
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only	5.3%	0.8%	0.2%	-0.4%	0.5%	3.5%
6	Net Revenues			32	38	131	153
	Total Revenues			1,036	1,182	1,400	1,602
	ASU and component units			3.1%	3.2%	9.4%	9.6%
7	Expendable Net Assets	186	184	213	216	208	232
	Total Expenses	789	839	933	1,048	1,166	1,311
	ASU only	23.6%	21.9%	22.8%	20.6%	17.8%	17.7%
8	Unrestricted net assets	120	131	150	160	145	155
	Total expenses	789	839	933	1,048	1,166	1,311
	ASU only	15.2%	15.6%	16.1%	15.3%	12.4%	11.8%
9	Debt Service Payments (int & princ)	27	36	29	33	49	59
	Total Expenses	789	839	933	1,048	1,166	1,311
	ASU only	3.4%	4.3%	3.1%	3.1%	4.2%	4.5%
10	Total financial resources, net		444	444	444	478	600
	Direct debt		784	1,087	1,224	1,289	1,289
	ASU and component units		56.6%	40.8%	39.1%	39.1%	46.5%

NORTHERN ARIZONA UNIVERSITY  
 Financial Ratios for Fiscal Years: 2002 to 2007  
 (dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007
1	State General Fund Appropriations Total Revenues	112 264	111 271	112 294	118 311	125 332	140 367
	NAU only. Fiscal 2007 includes \$2.6 million in building renewal (capital) appropriations.	42.4%	41.0%	38.1%	37.9%	37.7%	38.1%
2	Net Tuition and Fees Revenue Total Revenues	51 264	53 271	71 294	74 311	82 332	89 367
	NAU only	19.3%	19.6%	24.1%	23.8%	24.7%	24.3%
3	Gifts, Grants & Contracts, and TRIF Revenue Total Revenues	64 264	67 271	71 294	76 311	74 332	83 367
	NAU only TRIF - Technology & initiative research fund. NAU's share of the state education sales tax.	24.2%	24.8%	24.1%	24.4%	22.3%	22.6%
4	Other Revenues Total Revenues	37 264	40 271	40 294	40 311	51 332	56 367
	NAU only	14.0%	14.8%	13.6%	12.9%	15.4%	15.3%
5	Net Revenues Total Revenues	(3) 264	2 271	15 294	24 311	10 332	26 367
	NAU only	-1.1%	0.7%	5.1%	7.7%	3.0%	7.1%
6	Net Revenues Total Revenues	19 305	28 333	16 344	16 344	16 344	47 416
	NAU and component units	6.2%	8.4%	4.7%	11.3%		
7	Expendable Net Assets Total Expenses	46 267	62 269	52 279	64 287	67 321	91 341
	NAU only	17.2%	23.0%	18.6%	22.3%	20.9%	26.7%
8	Unrestricted net assets Total expenses	26 267	29 269	37 279	45 287	47 321	71 341
	NAU only	9.7%	10.8%	13.3%	15.7%	14.6%	20.8%
9	Debt Service Payments (int & princ) Total Expenses	11 267	14 269	15 279	18 287	20 321	22 341
	NAU only	4.1%	5.2%	5.4%	6.3%	6.2%	6.5%
10	Total financial resources, net Direct debt	95 144	108 217	107 276	107 276	107 276	140 300
	NAU and component units	66.0%	49.8%	38.8%	46.7%		

THE UNIVERSITY OF ARIZONA  
 Financial Ratios for Fiscal Years: 2002 to 2007  
 (dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007
1	State General Fund Appropriations	329	324	317	334	358	390
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385
UA only		33%	30%	28%	28%	28%	28%
2	Net Tuition and Fees Revenue	140	150	173	182	193	210
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385
UA only		14%	14%	15%	15%	15%	15%
3	Gifts, Grants & Contracts, and TRIF Revenue	396	463	493	511	523	527
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385
UA only		40%	43%	43%	42%	40%	38%
TRIF - Technology & initiative research funding. UA's share of the state education sales tax.							
4	Other Revenues	127	146	166	177	221	248
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385
UA only		13%	13%	14%	15%	17%	18%
5	Net Revenues	19	34	15	13	32	62
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385
UA only		2%	3%	1%	1%	2%	4%
6	Net Revenues	49	66	66	66	63	124
	Total Revenues	1,244	1,311	1,311	1,295	1,295	1,385
UA and component units		4%	5%	5%	5%	5%	8%
7	Expendable Net Assets	232	222	204	207	272	299
	Total Expenses	978	1,049	1,134	1,190	1,262	1,323
UA only		24%	21%	18%	17%	22%	23%
8	Unrestricted net assets	120	121	107	101	150	166
	Total expenses	978	1,049	1,134	1,190	1,262	1,323
UA only		12%	12%	9%	8%	12%	13%
9	Debt Service Payments (int & princ)	46	46	48	54	58	69
	Total Expenses	978	1,049	1,134	1,190	1,262	1,323
UA only		5%	4%	4%	5%	5%	5%
10	Total financial resources, net	628	707	806	806	806	896
	Direct debt	808	789	854	854	854	878
UA and component units		78%	90%	94%	94%	94%	102%



ARIZONA STATE UNIVERSITY  
Financial Ratios for Fiscal Years: 2002 to 2007  
(dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007
1	State General Fund Appropriations	321	312	313	336	369	430
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only. Fiscal 2007 includes \$7 million in building renewal (capital) appropriations.	38.5%	36.9%	33.5%	32.2%	31.5%	31.7%
2	Net Tuition and Fees Revenue	188	206	253	302	349	400
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only	22.6%	24.3%	27.1%	28.9%	29.8%	29.5%
3	Gifts, Grants & Contracts, and TRIF Revenue	212	207	219	254	279	299
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only.	25.5%	24.5%	23.4%	24.3%	23.8%	22.0%
	TRIF - Technology & initiative research fund. ASU's share of the state education sales tax.						
4	Other Revenues	112	121	150	152	175	229
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only	13.4%	14.3%	16.0%	14.6%	14.9%	16.9%
5	Net Revenues	44	7	2	(4)	6	47
	Total Revenues	833	846	935	1,044	1,172	1,358
	ASU only	5.3%	0.8%	0.2%	-0.4%	0.5%	3.5%
6	Net Revenues			32	38	131	153
	Total Revenues			1,036	1,182	1,400	1,602
	ASU and component units			3.1%	3.2%	9.4%	9.6%
7	Expendable Net Assets	186	184	213	216	208	232
	Total Expenses	789	839	933	1,048	1,166	1,311
	ASU only	23.6%	21.9%	22.8%	20.6%	17.8%	17.7%
8	Unrestricted net assets	120	131	150	160	145	155
	Total expenses	789	839	933	1,048	1,166	1,311
	ASU only	15.2%	15.6%	16.1%	15.3%	12.4%	11.8%
9	Debt Service Payments (int & princ)	27	36	29	33	49	59
	Total Expenses	789	839	933	1,048	1,166	1,311
	ASU only	3.4%	4.3%	3.1%	3.1%	4.2%	4.5%
10	Total financial resources, net		444	444	444	478	600
	Direct debt		784	1,087	1,224	1,289	1,289
	ASU and component units		56.6%	40.8%	39.1%	39.1%	46.5%

ARIZONA STATE UNIVERSITY  
Financial Ratios Formulas

Ratio 1 ASU only	$\frac{\text{State general fund appropriations}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 2 ASU only	$\frac{\text{Tuition and Fees, net of scholarship allowance}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 3 ASU only	$\frac{\text{Gifts, additions to endowments, grants, contracts, and state sales tax share (technology and research initiatives funding)- (Operating/Nonoperating/Capital)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 4 ASU only	$\frac{\text{Auxiliary enterprises revenues, investment income, and all other revenues (operating and nonoperating) not in the other revenue categories.}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 5 ASU only	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 6 ASU and component units	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 7 ASU only	$\frac{\text{Expendable Net Assets (Unrestricted and expendable restricted net assets)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 8 ASU only	$\frac{\text{Unrestricted net assets}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 9 ASU and component units	$\frac{\text{Debt service payments (interest payments per SRECNA and principal payments per cash flow)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 10	$\frac{\text{Total financial resources (unrestricted and restricted - expendable and nonexpendable - net assets of the Univ plus permanently and temporarily restricted and unrestricted net assets of the component units, less net property and equipment of the component units)}}{\text{Total direct debt (total outstanding capital debt of the Univ and component units)}}$

## ARIZONA STATE UNIVERSITY

### FINANCIAL STATEMENTS ANALYSIS – FISCAL 2007

Issue. The purpose of this analysis is to assist the Arizona Board of Regents (ABOR) in evaluating the financial position of Arizona State University (ASU) as of June 30, 2007. Beginning with fiscal 2002 the three Arizona universities governed by the ABOR adopted the Governmental Accounting Standards Board (GASB) Statement No. 35 financial reporting model, as required by the GASB. The financial ratios that accompany this report were prepared for the six years covered by the GASB 35 reporting model. In fiscal 2004 the Universities adopted GASB No. 39 which required that information regarding each University's component units be included in the University's financial report. Therefore, in instances where information from the Universities' component units is used in a ratio, only four years of financial information is presented.

Discussion. The Financial Statement Analysis for ASU addresses the following four questions through the presentation of pertinent financial ratios:

1. How has the composition of ASU's revenue changed over the period fiscal 2002 through 2007? (Ratios 1 – 4)

Graph A shows the overall ASU revenue trends over the last six years.

- Ratio 1 – State General Fund Appropriations Revenue as a Percentage of Total Revenues. (Graph B)

During this period the percentage of general fund appropriations to total revenues has decreased each year until fiscal 2007. In fiscal 2007, ASU received \$6.5 million in state capital (building renewal) appropriations, which are included in Ratio 1, and caused a small increase in state appropriations as a percent of total revenues. If this capital appropriation had not been received in fiscal 2007, then state appropriations would have comprised approximately 31.3% of total revenues, a slight decrease from the fiscal 2006 percentage of 31.5%. If the trend of declining state appropriations as a percent of total revenues continues at its current rate, it is expected general fund appropriations will constitute less than 30% of ASU's total funding sources within the next few years. During the six year period reported, the percentage of general fund appropriations revenues to total revenues has declined from 38.5% in fiscal 2002 to 31.7% in fiscal 2007. State appropriations dollars have increased by \$118 million, or a percentage increase of 38% during this period, from \$312 million in fiscal 2003 to \$430 million in fiscal 2007.

- Ratio 2 – Net Tuition and Fees Revenue as a Percentage of Total Revenues. (Graph C)

During this period the percentage of net tuition and fees revenues to total

revenues has increased from a low of 22.6% in fiscal 2002 to 29.5% in fiscal 2007. Fiscal 2007 showed a slight decrease from the fiscal 2006 percentage of tuition and fees to total revenues percentage of 29.8%. Although ASU has increased its tuition rate each of these years, those increases have not resulted in a decline in student enrollment. Increases in tuition have allowed the University to enhance instructional programs that have not received incremental increases in state appropriations funding. The University has also used increased tuition and fees revenues to provide increased financial aid programs funding. Total net tuition and fees revenues have increased by \$212 million during this period, from \$188 million in fiscal 2002 to \$400 million in fiscal 2007 resulting in a 113% percentage increase during the six year period being reported.

- Ratio 3 – Gifts, Grants, Contracts, and TRIF Revenues as a Percentage of Total Revenues. (Graph D)

The percentage reflected by this ratio has shown only a slight fluctuation during the six year reporting period from a high of 25.5% in fiscal 2002 to a low of 22.0% in fiscal 2007. Total gifts, grants, contracts, and TRIF dollars increased during this period by \$87 million from \$212 million in fiscal 2002 to \$299 million in fiscal 2007. There has been a 41% percentage increase in this revenue source during the reporting period. Included in the fiscal 2002 revenues was a \$20 million capital gift of historic printing presses to the University. The inclusion of this large gift somewhat skews the percent and dollar increases during this time period. With the completion of several major new research facilities in fiscal 2006, including Biodesign Institute Building B and Interdisciplinary Science and Technology Buildings I, II, and III, ASU anticipates over the long run that the grants and contracts revenue source will noticeably increase, both in total dollars and as a percentage of total revenues.

- Ratio 4 – Other Revenues as a Percentage of Total Revenues. (Graph E)

Other revenues include auxiliary enterprises revenues, net investment income, and educational department sales and services revenues. This revenue source has remained relatively steady for the time period reported with an overall fluctuation of 3.5% between the low of 13.4% in fiscal 2002 to a high of 16.9% in fiscal 2007. In fiscal 2004 ASU recorded a \$9.9 million gain on sale of land which was included in this revenue category causing a slight increase in other revenues as a percentage of total revenues for fiscal 2004. In fiscal 2007 ASU recorded a gain on sale of land of \$18.6 million and a \$3.8 million conveyance of property, which resulted in a greater fluctuation between years in this category than would have otherwise occurred. In dollar totals, auxiliary enterprises revenues, the largest funding source in this category, have increased from \$86 million in fiscal 2002 to \$118 million in fiscal 2007, a 37% percentage

increase. Sales and services of educational departments, which includes conference and seminar registration fees for ASU sponsored events, have increased from \$18 million to \$46 million during this reporting period, a reflection of steps taken by many departments to increase their revenue base.

- Total Revenue Composition. (Ratios 1 – 4). (Graph F)

Over the six year reporting period ASU has experienced a relative decline (on a percentage basis) of the support it receives directly from the State Legislature through general fund appropriations. The percentage of general fund appropriations as a percentage of total revenues has declined from approximately 39% in fiscal 2002 to approximately 32% in fiscal 2007. This decline in state general fund support has been primarily supplemented by increased student tuition and fees, increasing as a percentage of total revenues from 23% in fiscal 2002 to 29% in fiscal 2007. Total University revenues have increased from \$833 million in fiscal 2002 to \$1,358 million in fiscal 2007, a 63% percentage increase.

Although the University anticipates state general fund appropriations will continue to decline as a percentage of total revenues, it is expected in future years this decline will be caused by increased tuition and fees revenues, and grants and contracts activity.

2. Is ASU living within its available resources? (Ratios 5 and 6) (Graphs G and H)  
The ratio of net revenues to total revenues (Ratio 5) for ASU ranges from a low of negative 0.4% in fiscal 2005 to a high of 5.3% in fiscal 2002. Typically it is desired for this ratio to be positive. Although ASU has not sustained a positive, growing ratio over time, it has been essentially break even during this reporting period, which has been a time of growth for many programs and facilities. This means that ASU has been able, for the most part, to generate sufficient revenues to meet its operational needs on a year to year basis. Between fiscal 2006 and fiscal 2007 this indicator increased from 0.5% to 3.5%, partially due to the land sale proceeds that were received at the end of the fiscal year.

Ratio 6 shows this same ratio, but includes the net revenues and total revenues of ASU's component units, in addition to those of ASU. The trend of this ratio shows very positive results, and in fact shows a positive and increasing ratio for the four years reported.

3. Have expendable net assets kept pace with expenses? (Ratios 7 and 8) (Graphs I and J)  
The ratio of expendable (restricted and unrestricted) net assets to total expenses over the six years ranges between 23.6% in fiscal year 2002 to 17.7% in fiscal year 2006, with an average of 20.7%. This ratio measures the financial strength

of the University by indicating the percentage of useable net assets at the end of the year to total expenses. The percentage of 17.7% indicates the University has approximately nine weeks of annual spending available from end year expendable net assets. This could limit ASU's ability to respond to any emergencies or unforeseen needs.

This ratio is further limited in Ratio 8 by looking at only unrestricted net assets. With this limitation, the University had approximately six weeks of spending coverage at the end of fiscal 2007, down from eight weeks of coverage in fiscal 2005.

4. Can ASU repay its incurred debt? (Ratios 9 and 10) (Graphs K and L)

The ratio of debt service payments to total expenses is useful in determining possible future bond ratings. A ratio of debt service payments to expenses of no more than 10% is desirable. The fiscal 2007 debt service ratio for ASU was 4.5%, well within the acceptable range. This percentage is, however, expected to increase in future years as debt service payments begin to increase. Given the current structure of existing and planned debt service payments, this expected increase will be noticeable in fiscal 2008, when the research infrastructure debt service payments, funded by state appropriations, will begin.

Total financial resources to direct debt for ASU and its component units (Ratio 10) is a broader measure of the ability of ASU and its component units to cover debt as of the end of the fiscal year. Although the ratio has declined over the four year period reported, the fiscal 2007 ratio of 46.5% shows a marked increase from the fiscal 2006 ratio of 39.1%, and reflects the ability of ASU and its component units to repay all outstanding debt without undue financial hardship.

Summary. The analysis of ASU's financial position shows:

- There is the continued trend at ASU towards an increasing reliance on revenue sources other than state general fund appropriations. State appropriations have not kept pace proportionally with overall University revenues. State general fund appropriations revenues as a percentage of total revenues have declined over the six year period covered by these ratios. In the years reported on this schedule, this decline in state support has been offset by increases in net tuition and fees. In looking to the future, the University anticipates grants and contracts revenues to become a more significant revenue source due to new research facilities recently opened, and other commitments being made in the research area.
- ASU generated relatively small or essentially break-even net revenues each year. Although ASU's total revenues increased by approximately \$525 million

between fiscal 2002 and fiscal 2007, its net revenues over this period have varied from a low of negative \$4 million to a high of \$47 million. However, when the net revenues of the components units are included, there has been noticeable growth in net revenues over the reporting period.

- Given its relatively small net revenues in any given year, the University has a more limited ability to react to emergencies or unforeseen needs.
- Based on the debt ratios reported, ASU, as well as its component units, can repay current levels of debt and has the capacity for future additional debt financings. ASU anticipates issuing approximately \$136 million in new debt during fiscal 2008. In addition, approximately \$160 million of debt has been issued or is planned to be issued by the component units during fiscal 2008.

Conclusion. As the trend toward reduced state appropriations continues, the University must have additional resources to meet their ongoing operational and capital needs. These additional resources for the years reported on were primarily tuition and fees generated from increases in undergraduate and graduate, resident and non resident tuition and fees, and to a lesser extent enrollment increases. ASU's financial position has remained essentially the same during the last six years, having neither significantly worsened nor improved. The debt capacity ratio (Ratio 9) as reported is not indicative of the long-term since it does not include principal payments on recently issued debt financings or capital leases, since those payments are structured to begin in future years, most noticeably in fiscal 2008.



# Financial Graphs

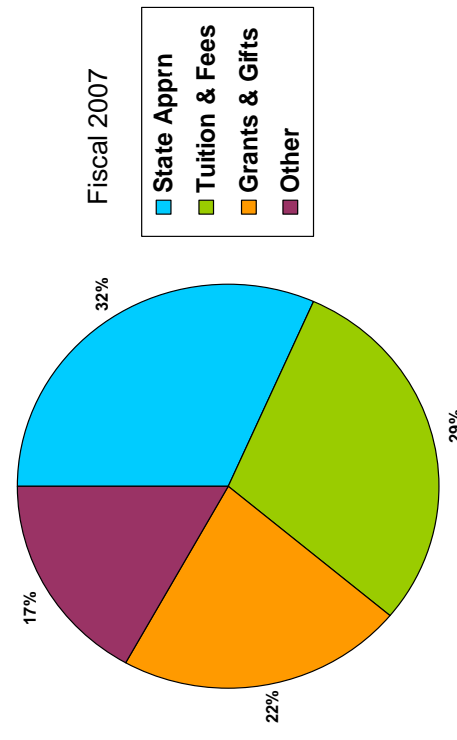
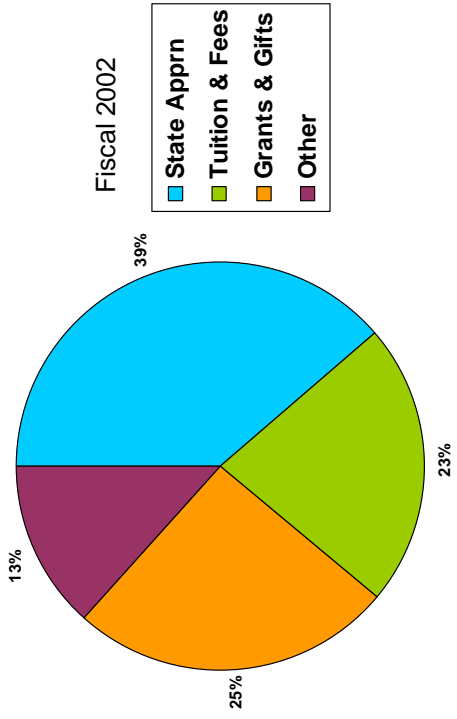
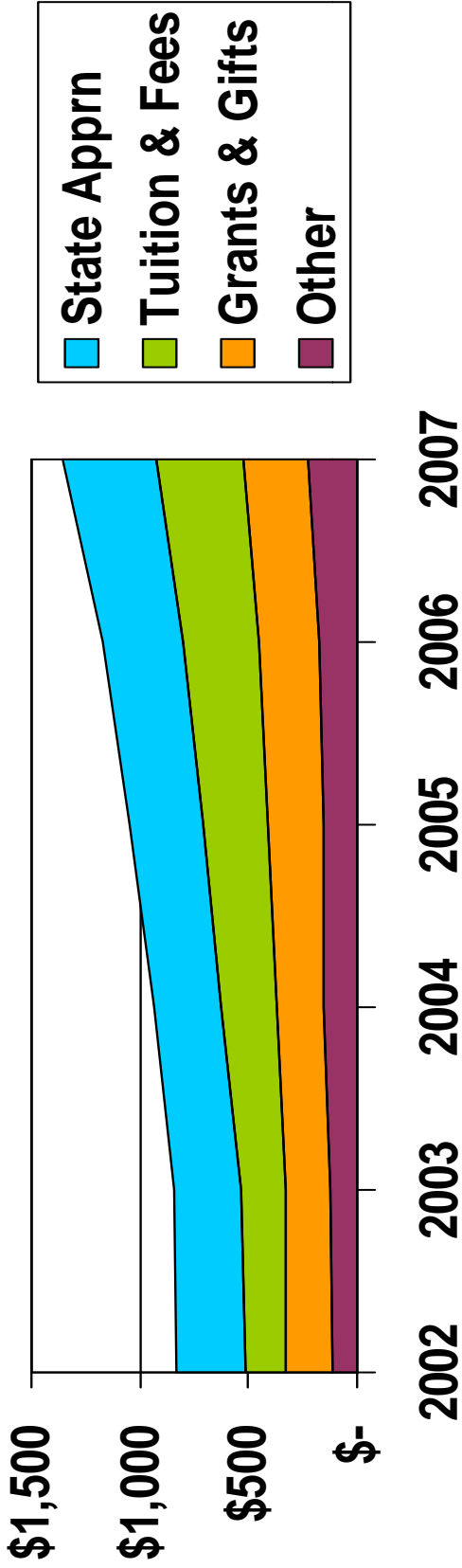
(Based on Financial Ratios Presented to the  
Arizona Board of Regents)

Fiscal Years 2002 - 2007

# ASU REVENUE TRENDS

Fiscal Years 2002 - 2007  
(Dollars in Millions)

Graph A

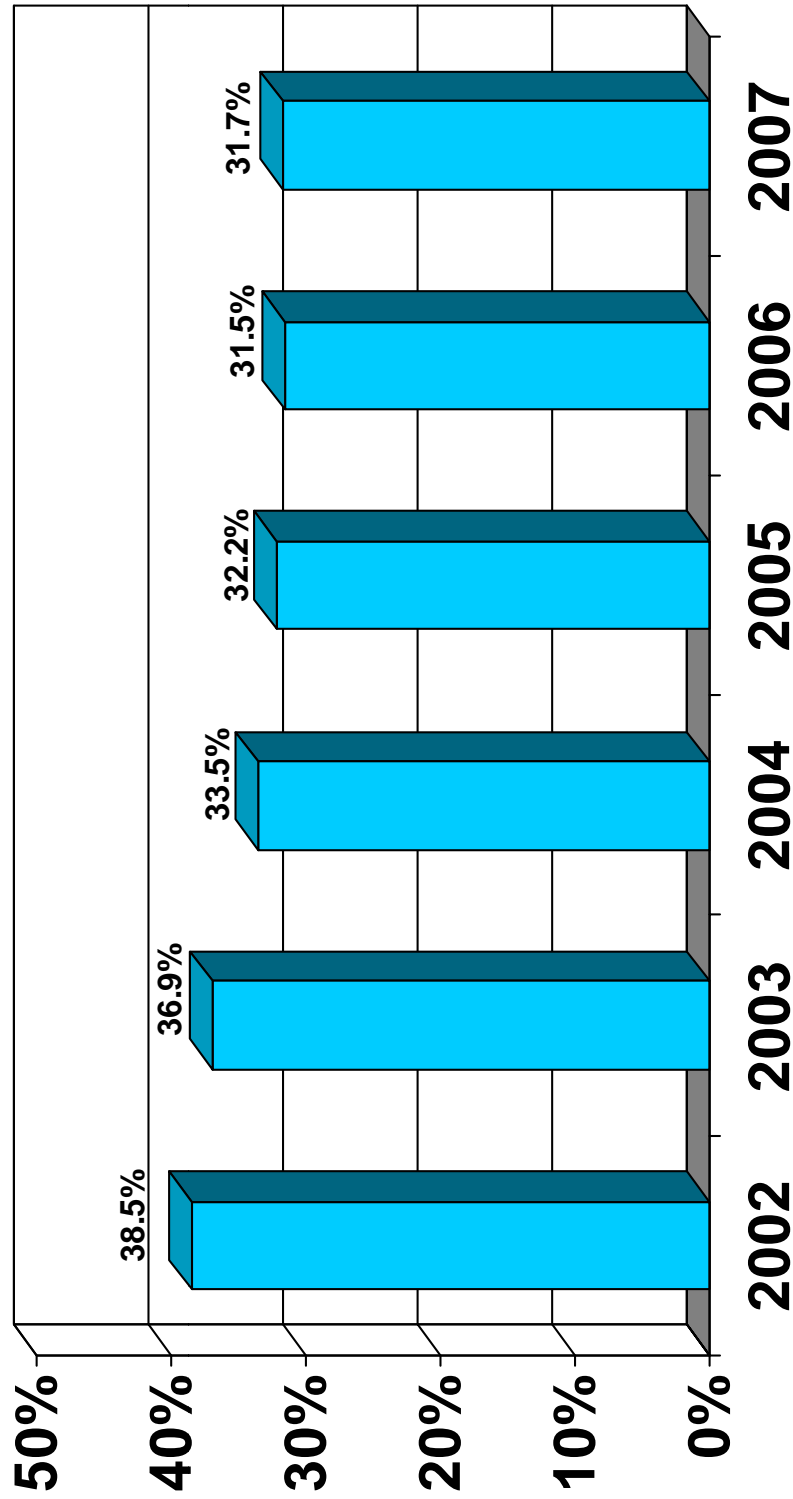


12/07/2007

ASU Financial Services

# ASU

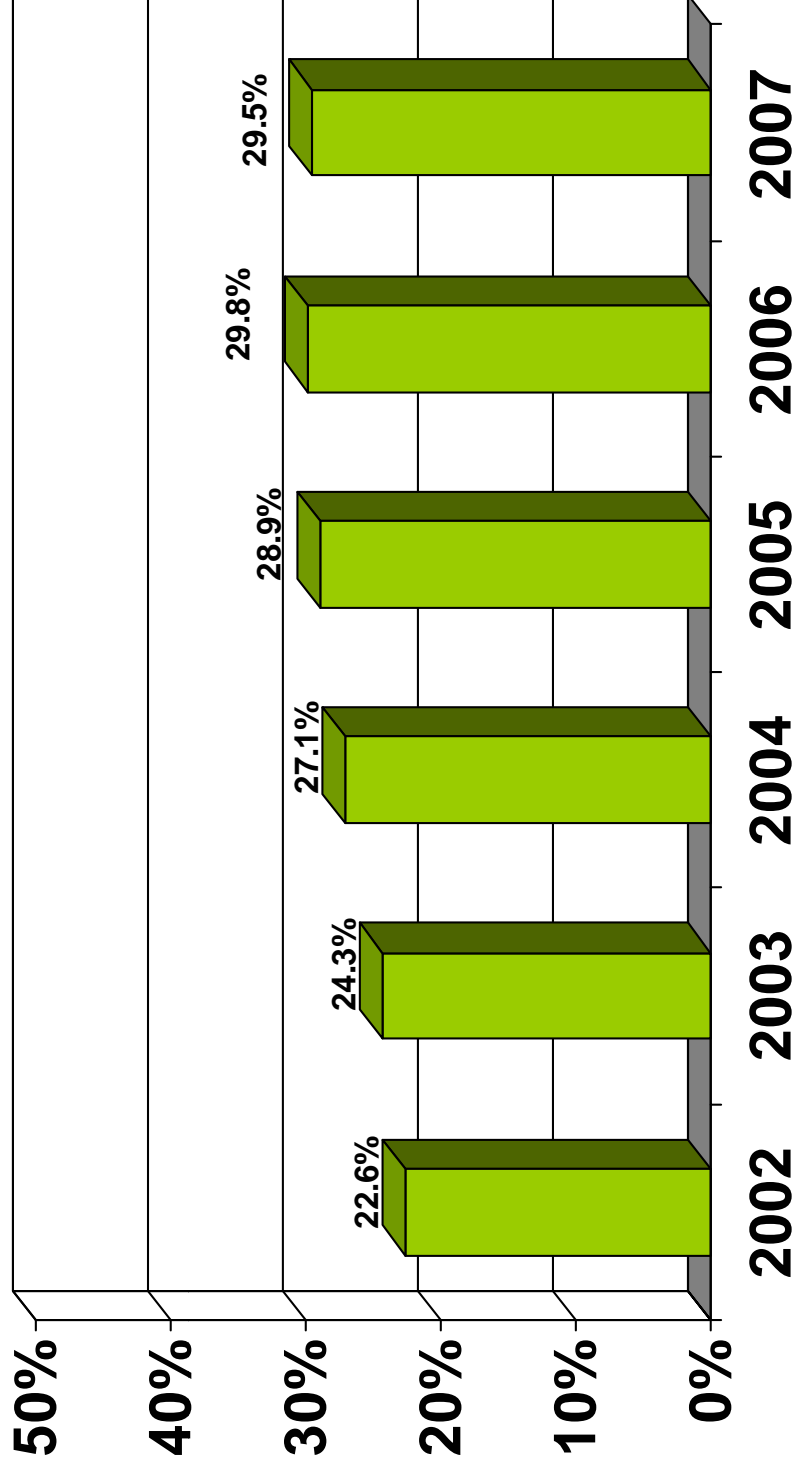
## State General Fund Appropriations Revenue as a Percentage of Total Revenues (Ratio 1) Fiscal Years 2002 - 2007



# ASU

## Net Tuition and Fees Revenue as a Percentage of Total Revenues (Ratio 2)

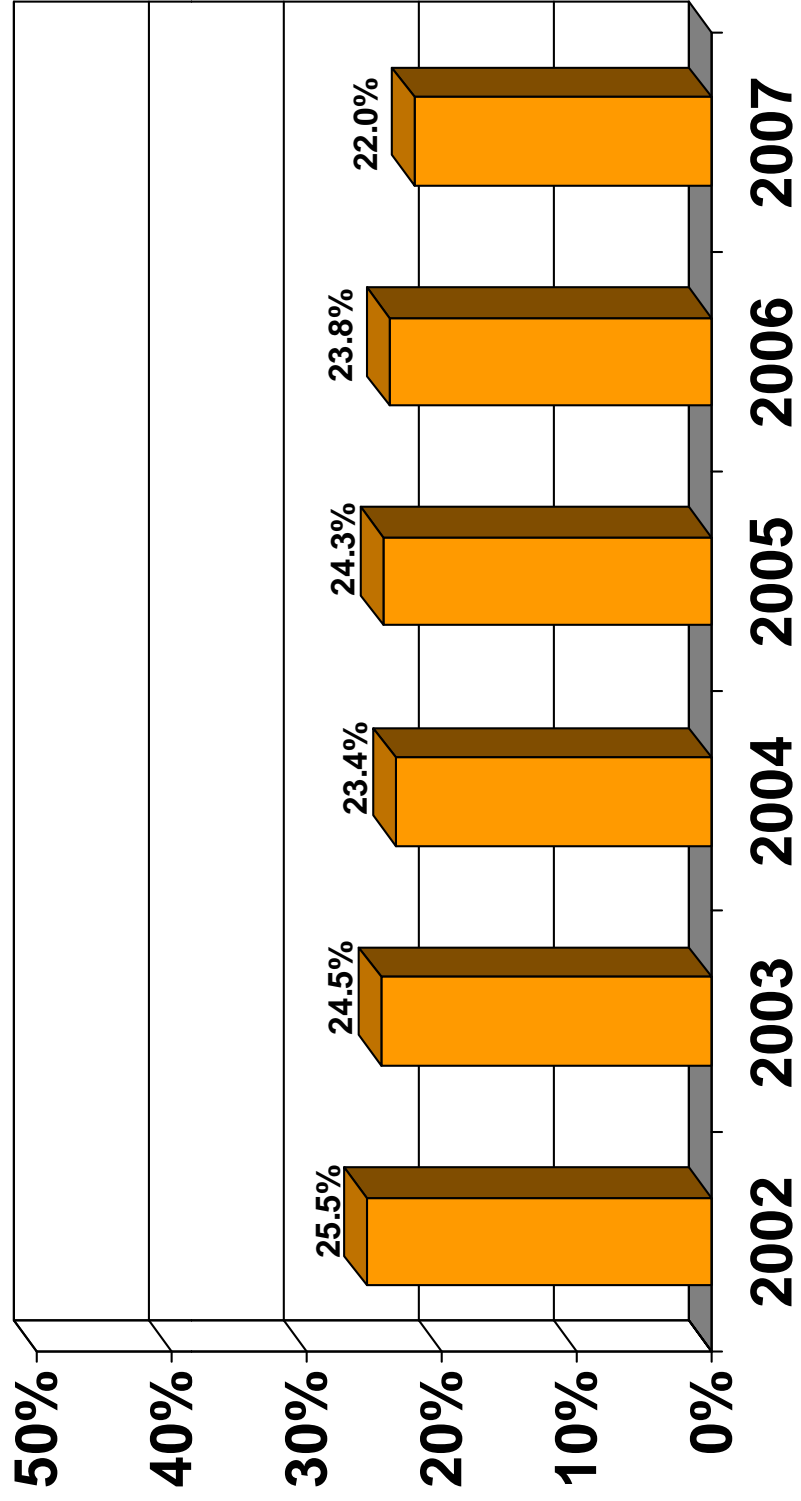
Fiscal Years 2002 - 2007



# ASU

## Gifts, Grants & Contracts, and TRIF Revenues as a Percentage of Total Revenues (Ratio 3)

Fiscal Years 2002 - 2007



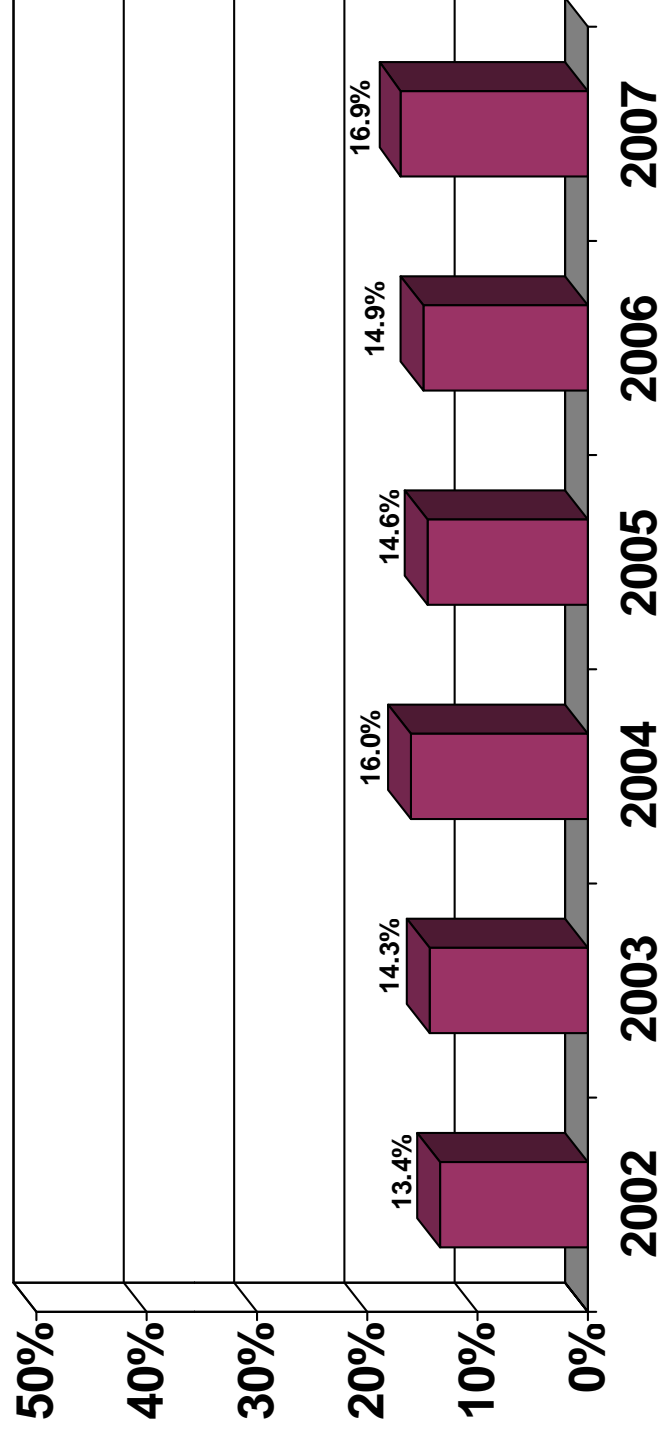
TRIF = Technology and Research Initiative Fund, and is ASU's share of the state education sales tax.

# ASU

## Other Revenues

### as a Percentage of Total Revenues (Ratio 4)

Fiscal Years 2002 - 2007

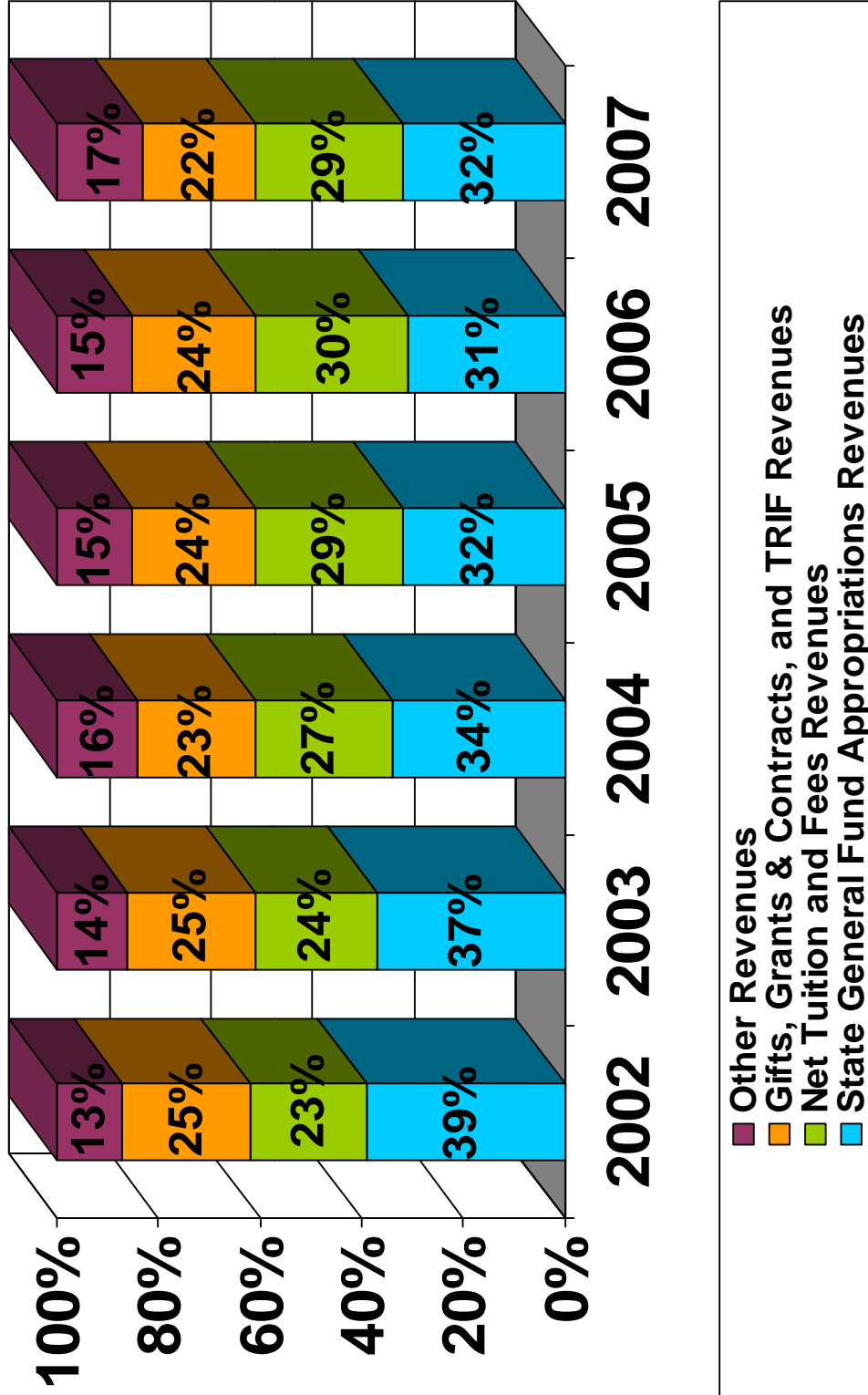


Other revenues primarily include auxiliary enterprises revenues, sales and services revenues of academic departments, and net investment income.

ASU

Total Revenue Composition (Ratios 1 - 4)

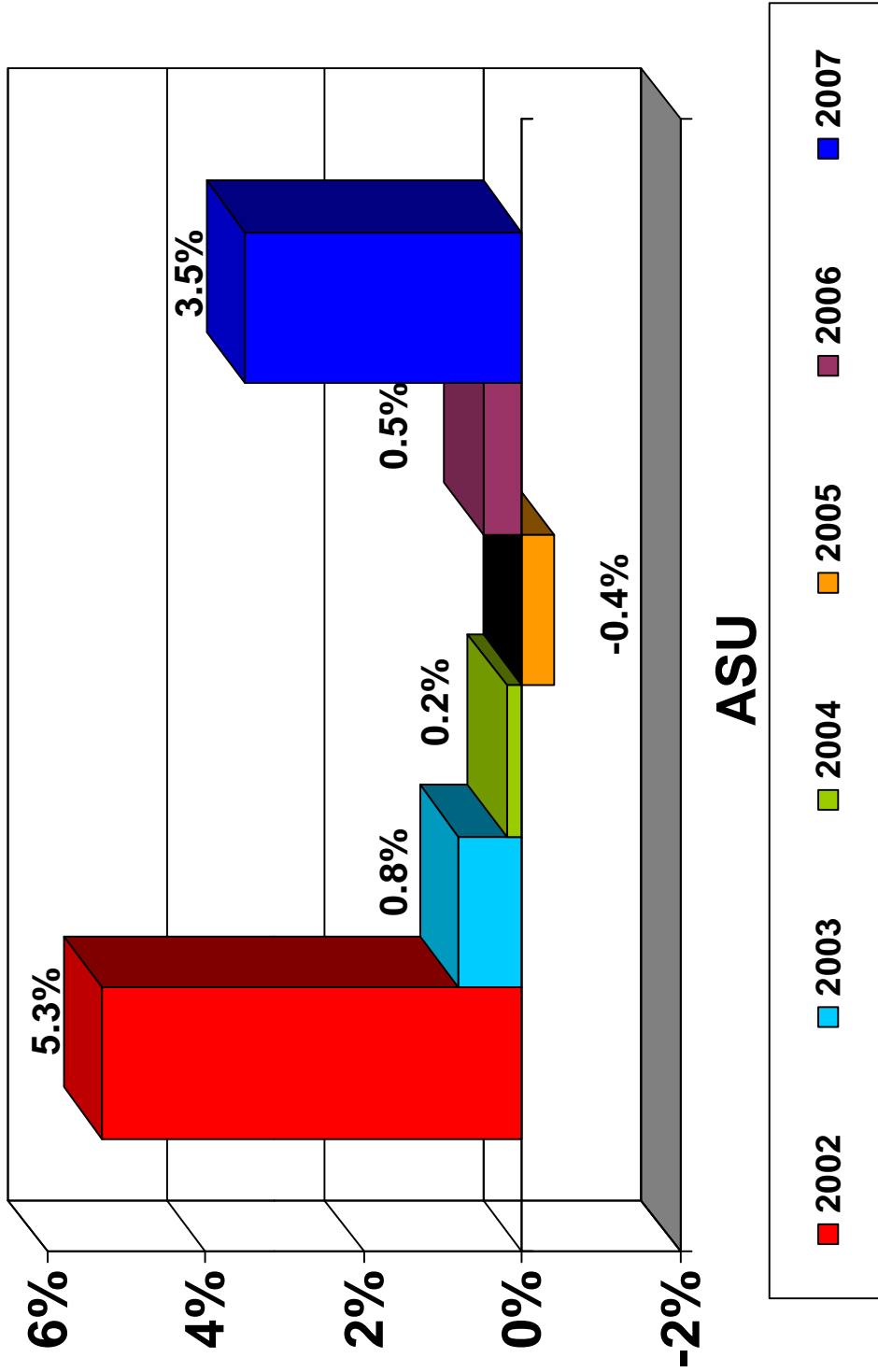
Fiscal 2002 - 2007



# ASU

## Net Revenues to Total Revenues (Ratio 5)

Fiscal Years 2002 - 2007

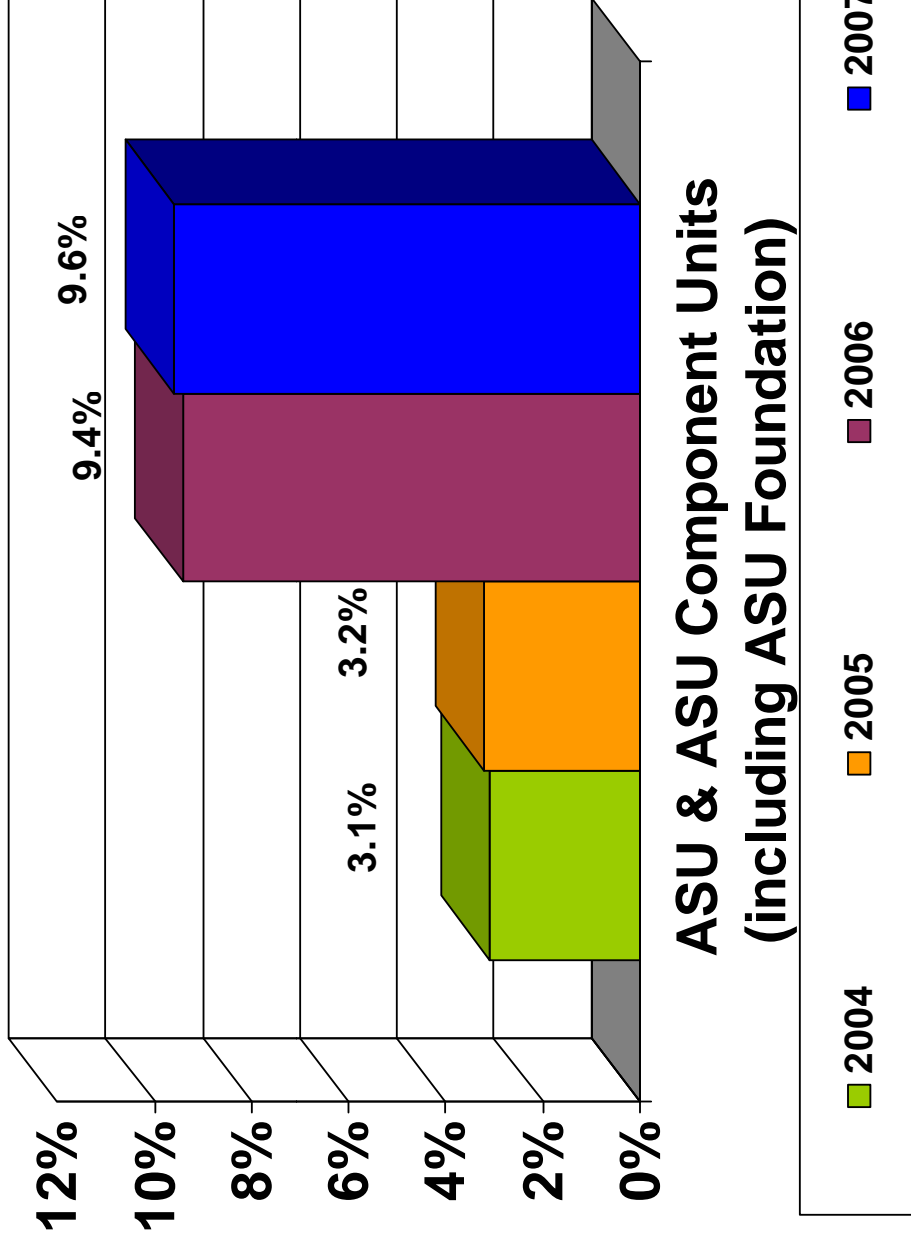


# ASU & ASU Component Units (including ASU Foundation)

Graph H

## Net Revenues to Total Revenues (Ratio 6)

Fiscal Years 2004 - 2007



12/07/2007

Only 2004, 2005, and 2006 information is available.

ASU Financial Services

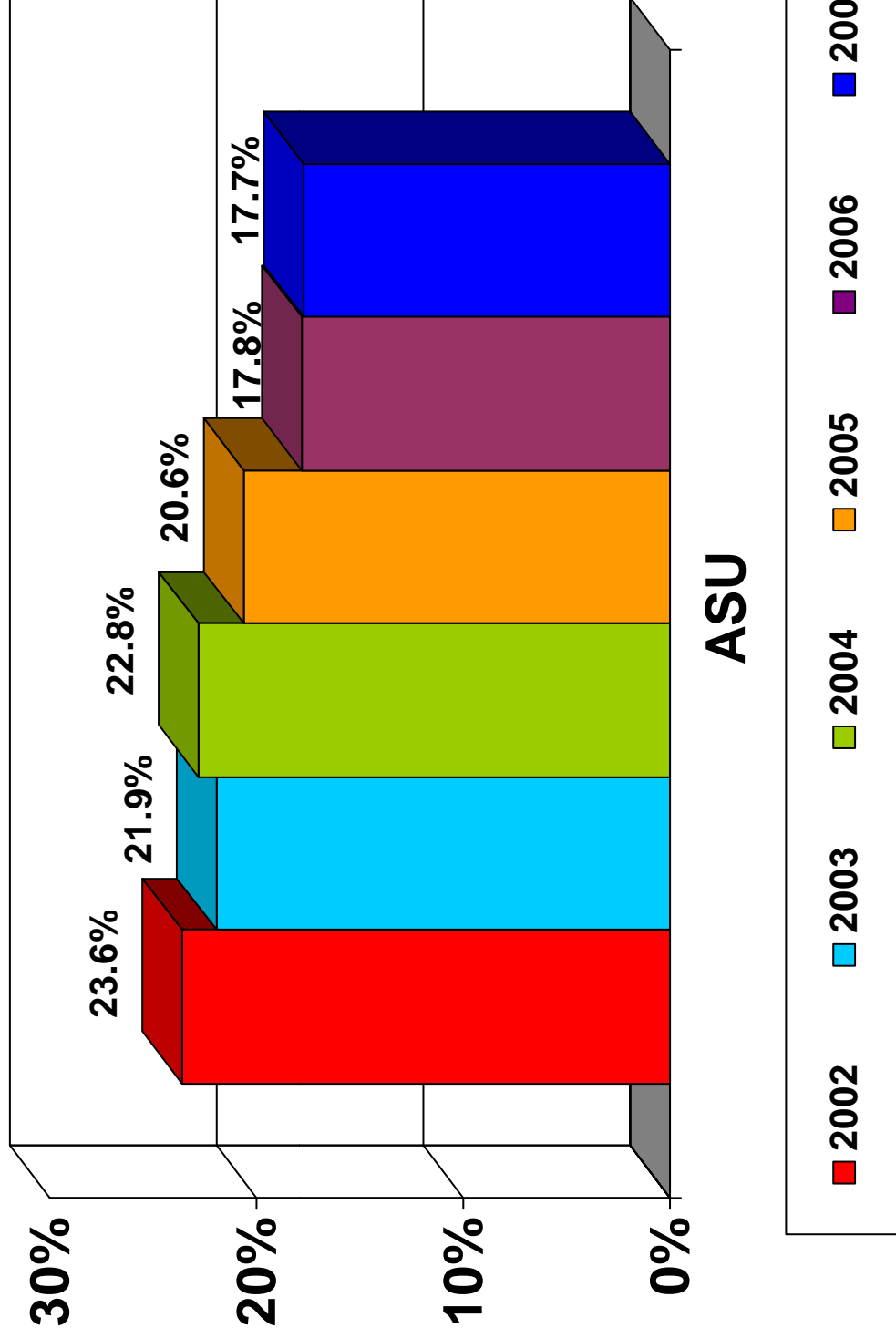
# ASU

Graph I

## Expendable Net Assets to Total Expenses (Ratio 7)

Fiscal Years 2002 - 2007

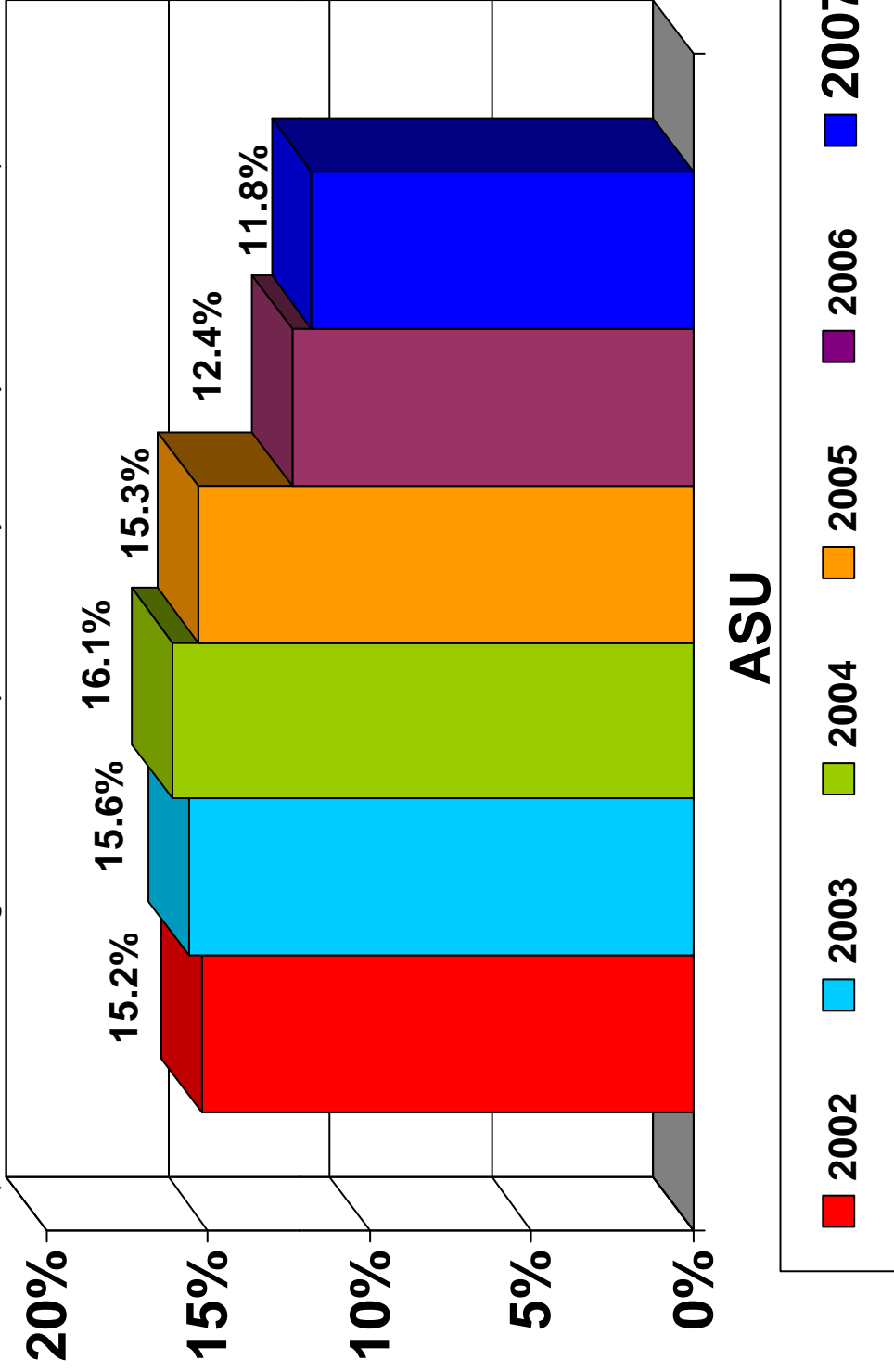
(Measures whether expendable net assets have kept pace with expenses.)



# ASU Unrestricted Net Assets to Total Expenses (Ratio 8)

Fiscal Years 2002 – 2007

(Measures coverage of annual operations by most liquid resources.)



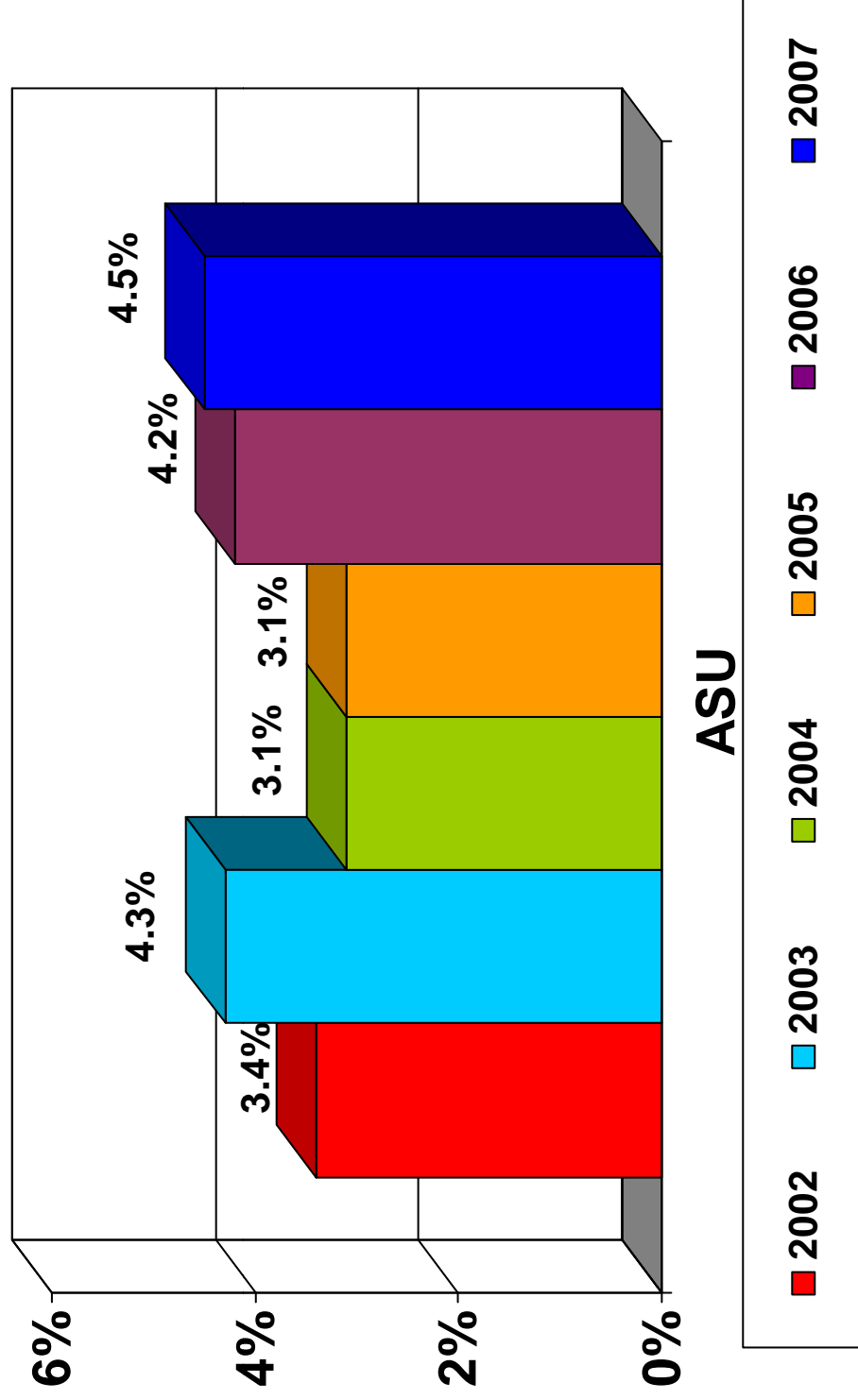
# ASU

Graph K

## Debt Service Payments to Total Expenses (Ratio 9)

Fiscal Years 2002 – 2007

(Measures the burden of debt service payments (principal and interest) relative to overall expenses.)



# ASU and ASU Component Units

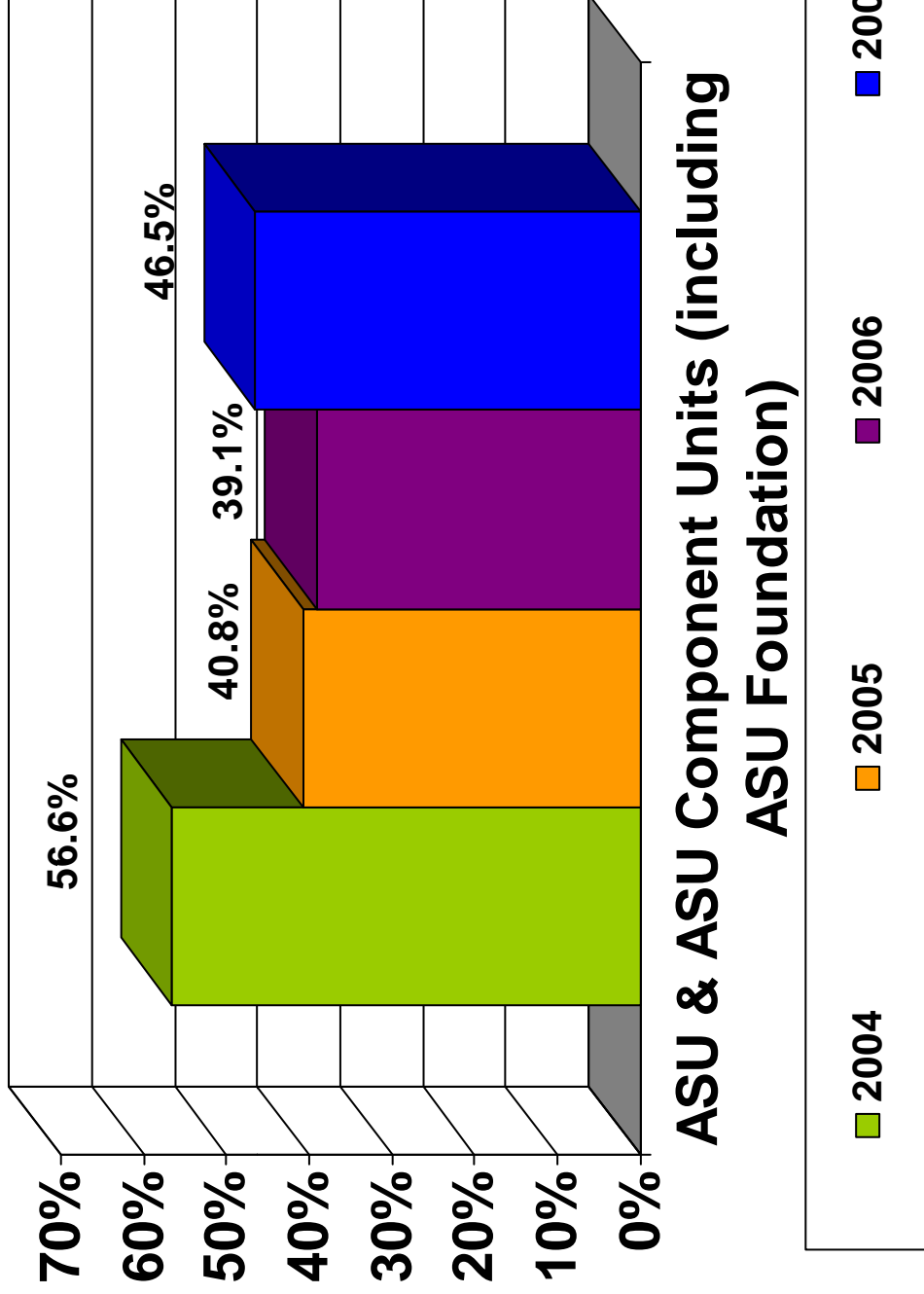
Graph L

(including ASU Foundation)

## Total Financial Resources to Direct Debt (Ratio 10)

Fiscal Years 2004 - 2007

(Measures coverage of debt by all available resources.)



12/07/2007

Only 2004, 2005, and 2006 information is available.

ASU Financial Services

**NORTHERN  
ARIZONA  
UNIVERSITY**



NORTHERN ARIZONA UNIVERSITY  
Financial Ratios for Fiscal Years: 2002 to 2007  
(dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007
1	State General Fund Appropriations Total Revenues	112 264	111 271	112 294	118 311	125 332	140 367
	NAU only. Fiscal 2007 includes \$2.6 million in building renewal (capital) appropriations.	42.4%	41.0%	38.1%	37.9%	37.7%	38.1%
2	Net Tuition and Fees Revenue Total Revenues	51 264	53 271	71 294	74 311	82 332	89 367
	NAU only	19.3%	19.6%	24.1%	23.8%	24.7%	24.3%
3	Gifts, Grants & Contracts, and TRIF Revenue Total Revenues	64 264	67 271	71 294	76 311	74 332	83 367
	NAU only TRIF - Technology & initiative research fund. NAU's share of the state education sales tax.	24.2%	24.8%	24.1%	24.4%	22.3%	22.6%
4	Other Revenues Total Revenues	37 264	40 271	40 294	40 311	51 332	56 367
	NAU only	14.0%	14.8%	13.6%	12.9%	15.4%	15.3%
5	Net Revenues Total Revenues	(3) 264	2 271	15 294	24 311	10 332	26 367
	NAU only	-1.1%	0.7%	5.1%	7.7%	3.0%	7.1%
6	Net Revenues Total Revenues	19 305	28 333	16 344	16 344	16 344	47 416
	NAU and component units	6.2%	8.4%	4.7%	4.7%	11.3%	11.3%
7	Expendable Net Assets Total Expenses	46 267	62 269	52 279	64 287	67 321	91 341
	NAU only	17.2%	23.0%	18.6%	22.3%	20.9%	26.7%
8	Unrestricted net assets Total expenses	26 267	29 269	37 279	45 287	47 321	71 341
	NAU only	9.7%	10.8%	13.3%	15.7%	14.6%	20.8%
9	Debt Service Payments (int & princ) Total Expenses	11 267	14 269	15 279	18 287	20 321	22 341
	NAU only	4.1%	5.2%	5.4%	6.3%	6.2%	6.5%
10	Total financial resources, net Direct debt	95 144	108 217	107 276	107 276	107 276	140 300
	NAU and component units	66.0%	49.8%	38.8%	46.7%	46.7%	46.7%

NORTHERN ARIZONA UNIVERSITY  
Financial Ratios Formulas

Ratio 1 NAU only	$\frac{\text{State general fund appropriations}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 2 NAU only	$\frac{\text{Tuition and Fees, net of scholarship allowance}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 3 NAU only	$\frac{\text{Gifts, additions to endowments, grants, contracts, and state sales tax share (technology and research initiatives funding)- (Operating/Nonoperating/Capital)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 4 NAU only	$\frac{\text{Auxiliary enterprises revenues, investment income, and all other revenues (operating and nonoperating) not in the other revenue categories.}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 5 NAU only	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 6 NAU and component units	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 7 NAU only	$\frac{\text{Expendable Net Assets (Unrestricted and expendable restricted net assets)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 8 NAU only	$\frac{\text{Unrestricted net assets}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 9 NAU and component units	$\frac{\text{Debt service payments (interest payments per SRECNA and principal payments per cash flow)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 10	$\frac{\text{Total financial resources (unrestricted and restricted - expendable and nonexpendable - net assets of the Univ plus permanently and temporarily restricted and unrestricted net assets of the component units, less net property and equipment of the component units)}}{\text{Total direct debt (total outstanding capital debt of the Univ and component units)}}$

NORTHERN ARIZONA UNIVERSITYFINANCIAL STATEMENTS ANALYSIS – FISCAL 2007

Issue. The purpose of this analysis is to assist the Arizona Board of Regents (ABOR) in evaluating the financial position of Northern Arizona University (NAU) as of June 30, 2007. Beginning with fiscal 2002 the three Arizona universities governed by the ABOR adopted the Governmental Accounting Standards Board (GASB) Statement No. 35 financial reporting model, as required by the GASB. The financial ratios that accompany this report were prepared for the six years covered by the GASB 35 reporting model. In fiscal 2004 the Universities adopted GASB No. 39 which required that information regarding each University's component units be included in the University's financial report. Therefore, in instances where information from the Universities' component units is used in a ratio, only four years of financial information is presented.

Discussion. The Financial Statement Analysis for NAU addresses the following four questions through the presentation of pertinent financial ratios:

1. How has the composition of NAU's revenue changed over the period fiscal 2002 through 2007? (Ratios 1 – 4)

Graph A shows the overall NAU revenue trends over the last six years.

- Ratio 1 – State General Fund Appropriations Revenue as a Percentage of Total Revenues. (Graph B)

During the six year period reported, the percentage of general fund appropriations revenues to total revenues declined from 42.4% in fiscal 2002 to 37.7% in fiscal 2006, but rose slightly in fiscal 2007 to 38.1%. The ratio would have dropped very slightly to 37.5% in fiscal 2007 had the University not received a \$2.6 million capital (building renewal) appropriation. State appropriations dollars have increased by \$28 million, or a percentage increase of 25% during this period, from \$112 million in fiscal 2002 to \$140 million in fiscal 2007.

- Ratio 2 – Net Tuition and Fees Revenue as a Percentage of Total Revenues. (Graph C)

During this period the percentage of net tuition and fees revenues to total revenues has increased from a low of 19.3% in fiscal 2002 to 24.3% in fiscal 2007, with increases occurring each year being reported. Although NAU has increased its tuition rate each of these years, NAU has maintained a stable student enrollment. Increases in tuition have allowed the University to enhance instructional programs that have not received incremental increases in state appropriations funding. The University has also used increased

tuition and fees revenues to provide increased financial aid programs funding. Total net tuition and fees revenues have increased by \$38 million during this period, from \$51 million in fiscal 2002 to \$89 million in fiscal 2007 resulting in a percentage increase of 75% during the six year period being reported.

- Ratio 3 – Gifts, Grants, Contracts, and TRIF revenues as a Percentage of Total Revenues. (Graph D)

The percentage reflected by this ratio has shown only a slight fluctuation during the six year reporting period from a high of 24.2% in fiscal 2002 to 22.6% in fiscal 2007. Total gifts, grants, contracts, and Technology and Research Initiative Fund (TRIF) dollars increased during this period by \$19 million from \$64 million in fiscal 2002 to \$83 million in fiscal 2007. This was a 30% increase in this revenue source during the reporting period. With the completion of several major new research facilities in fiscal 2007, including the Applied Research and Development Building, College of Engineering expansion, and new laboratory Buildings, NAU anticipates the grants and contracts revenue source to continue to increase over the next few years, both in total dollars and as a percentage of total revenues.

- Ratio 4 – Other Revenues as a Percentage of Total Revenues. (Graph E)

Other revenues include auxiliary enterprises revenues, net investment income, and educational department sales and services revenues. This revenue source has fluxuated over the time period reported in dollar amounts between \$37 million in 2002 to \$56 million in 2007. The percentage change varied from 14.0% in 2002 to 15.3% of total revenues in fiscal 2007. In dollar totals, auxiliary enterprises revenues accounted for a large amount of the increase from a total of \$28 million in fiscal 2002 to \$39 million in fiscal 2007, a 40% percentage increase over the six year period. Another significant portion of other revenues is investment income which increased from \$1 million in 2002 to almost \$9 million in 2007. Investment income has increased as the University has become more fiscally strong in the past 5 years resulting in more available dollars to invest.

- Total Revenue Composition. (Ratios 1 – 4). (Graph F)

Although the percentage has leveled off in fiscal 2007 at 38.1%, over the six year reporting period NAU has experienced a steady decline (on a percentage basis) of the support it receives directly from the State Legislature through general fund appropriations. The percentage of general fund appropriations as a percentage of

total revenues declined from approximately 42.4% in fiscal 2002 to approximately 38% in fiscal 2007. This decline in state general fund support has been primarily supplemented by increased student tuition and fees, increasing as a percentage of total revenues from 19.3% in fiscal 2002 to 24.3% in fiscal 2007. Total University revenues have increased from \$264 million in fiscal 2002 to \$367 million in fiscal 2007, a 39% increase.

Although the University anticipates state general fund appropriations will continue to decline as a percentage of total revenues, it is expected in future years this decline will be caused by an overall increase in the University's revenue base. The increase in the overall revenue base is expected to include increased grants and contracts activity, auxiliary revenues, and tuition.

2. Is NAU living within its available resources? (Ratios 5 and 6) (Graphs G and H)

The ratio of net revenues to total revenues (Ratio 5) for NAU ranges from a negative 1.1% in fiscal 2002 to 7.1% in fiscal 2007. NAU has sustained a positive, growing ratio over this period with increasing revenues and balanced budgets. NAU generated significant overall net asset increases of \$15 million in 2004, \$24 million in 2005, \$10.0 in 2006, and an increase of \$26 million in 2007. This ratio demonstrates NAU's commitment to a balanced budget and to building reserves. A significant portion of these monies will be used to address outfitting and operating all of the new buildings on campus including the research infrastructure buildings.

Ratio 6 shows this same ratio, but includes the net revenues and total revenues of NAU's component units, in addition to those of NAU. The trend of this ratio fluxuates over time but continues to be positive.

3. Have expendable net assets kept pace with expenses? (Ratios 7 and 8) (Graphs I and J)

The ratio of expendable (restricted and unrestricted) net assets to total expenses over the six years ranges between 17.2% in fiscal year 2002 to 26.7% in fiscal year 2007, with an average of 21%. This ratio measures the financial strength of the University by indicating the percentage of useable net assets at the end of the year to total expenses. The percentage of 26.7% indicates the University has approximately fourteen (14) weeks of annual spending available from year end expendable net assets. This is up from eleven (11) weeks reported at the end of fiscal 2006. This quantifies NAU's ability to respond to any emergencies or unforeseen needs.

This ratio is further limited in Ratio 8 by looking at only unrestricted net assets. With this limitation, the University had approximately eleven (11) weeks of spending coverage at the end of fiscal 2007 an increase from the eight (8) weeks reported in fiscal 2006.

4. Can NAU repay its incurred debt? (Ratios 9 and 10) (Graphs K and L)

The ratio of debt service payments to total expenses is useful in determining possible future bond ratings. A ratio of debt service payments to expenses of no more than 10% is desirable. The fiscal 2007 debt service ratio for NAU was 6.5%, well within the acceptable range. This percentage is, however, expected to increase in future years as debt service payments begin to increase. Given the current structure of existing and planned debt service payments, this expected increase will be noticeable in fiscal 2008.

Total financial resources to direct debt for NAU and its component units (Ratio 10) is a broader measure of the ability of NAU and its component units to cover debt as of the end of the fiscal year. Although the ratio has declined over the three year period from 2004 to 2006, the ratio increased in fiscal 2007 to 46.7%. This ratio reflects the ability of NAU and its component units to repay all outstanding debt without undue financial hardship.

Summary. The analysis of NAU's financial position shows:

- There is the continued trend at NAU towards an increasing reliance on revenue sources other than state general fund appropriations. State appropriations have not kept pace proportionally with overall University revenues. State general fund appropriations revenues as a percentage of total revenues have declined five of the six years included in these ratios. In the years reported on this schedule, this decline in state support has been offset by increases in net tuition and fees and other revenues. In looking to the future, the University anticipates grants and contracts revenues to become a more significant revenue source due to new research facilities recently opened. The University also expects auxiliary revenues and tuition to increase as planned enrollment grows. The University experienced its highest level of enrollment in the fall 2007 semester following a record breaking fall 2006 and is working to continue that trend. The University has opened student housing that is in high demand, construction of a new student housing facility has begun, and expansion of dining facilities is underway. All of these factors are expected to impact revenue trends in a positive way.

- NAU has generated increasing net revenues over the past few years. NAU total revenues increased by approximately \$103 million between fiscal 2002 and fiscal 2007. Over the same period, the University has controlled expenditures and balanced its budget each year resulting in increased financial stability.
- NAU enrollment continues to improve with positive trends.
- Due to its increases in net revenues in the past few years, the University has a stable ability to react to emergencies or unforeseen needs.
- Based on the debt ratios reported, NAU, as well as its component units, can repay current levels of debt and has the capacity for future additional debt financings. NAU anticipates issuing approximately \$67 million of new debt during fiscal 2008

Conclusion. As the trend toward reduced state appropriations continues, the University must have additional resources to meet their ongoing operational and capital needs. These additional resources for the years reported were primarily tuition and fees generated from increases in undergraduate and graduate, resident and non resident tuition and fees. NAU's financial position has vastly improved over the last six years. NAU has delayed principal payments on recent debt issues in order to better match its debt service obligations with related revenues to be generated. The debt capacity ratio (Ratio 9) as reported is not indicative of the long term since it does not include principal payments on recently issued debt financings or capital leases, since those payments are structured to begin in future years, most noticeably in fiscal 2008 when the University begins receiving the \$5.9 million appropriation for research infrastructure projects.



# Financial Graphs

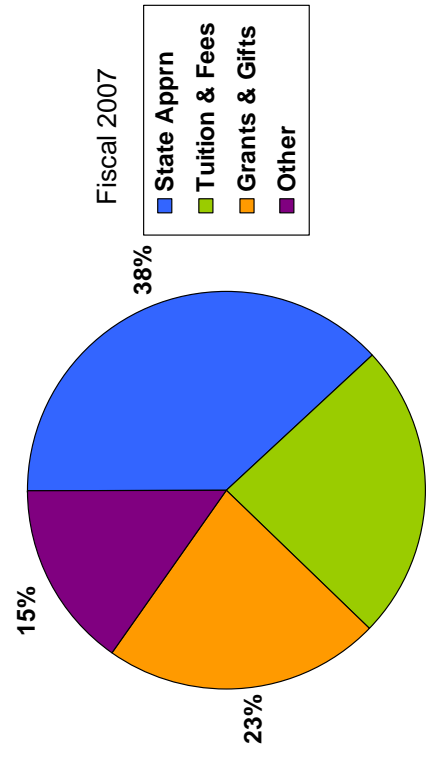
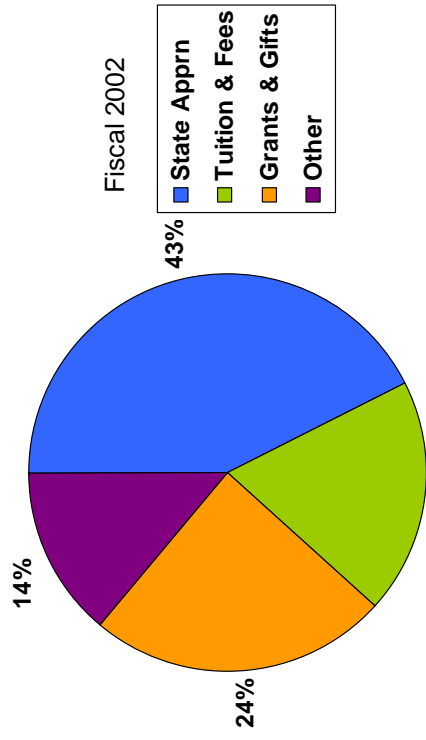
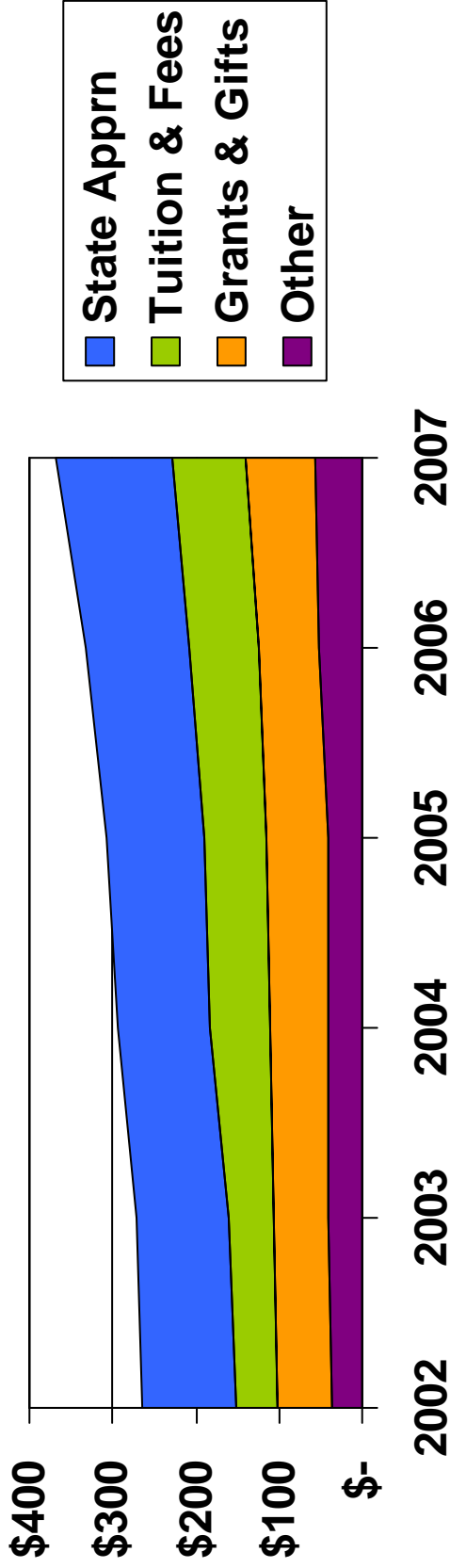
(Based on Financial Ratios Presented to the  
Arizona Board of Regents)

## Fiscal Years 2002 - 2007

# NAU REVENUE TRENDS

Fiscal Years 2002 - 2007  
(Dollars in Millions)

Graph A

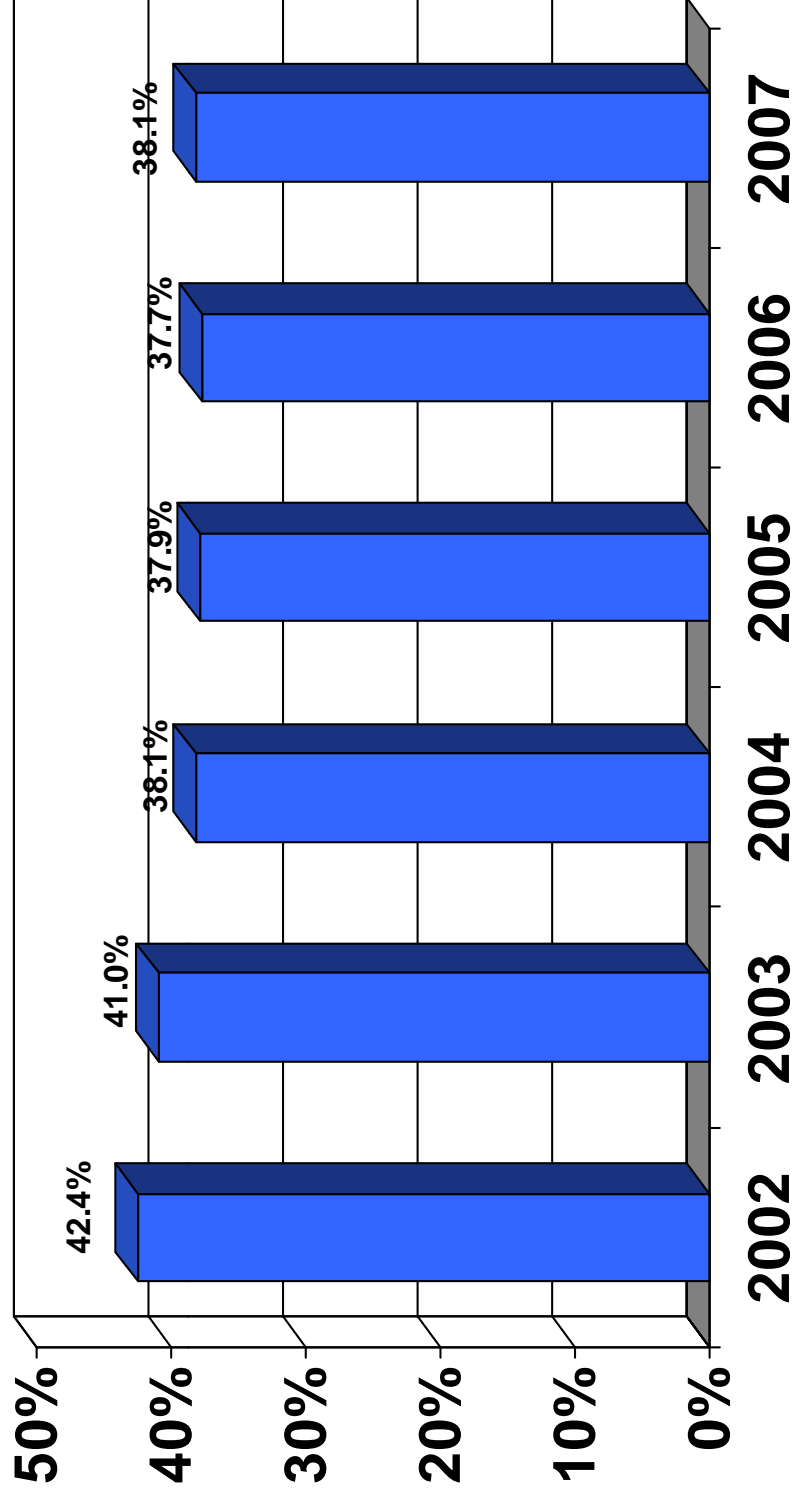


12/07/2007

NAU Comptroller

# NAU

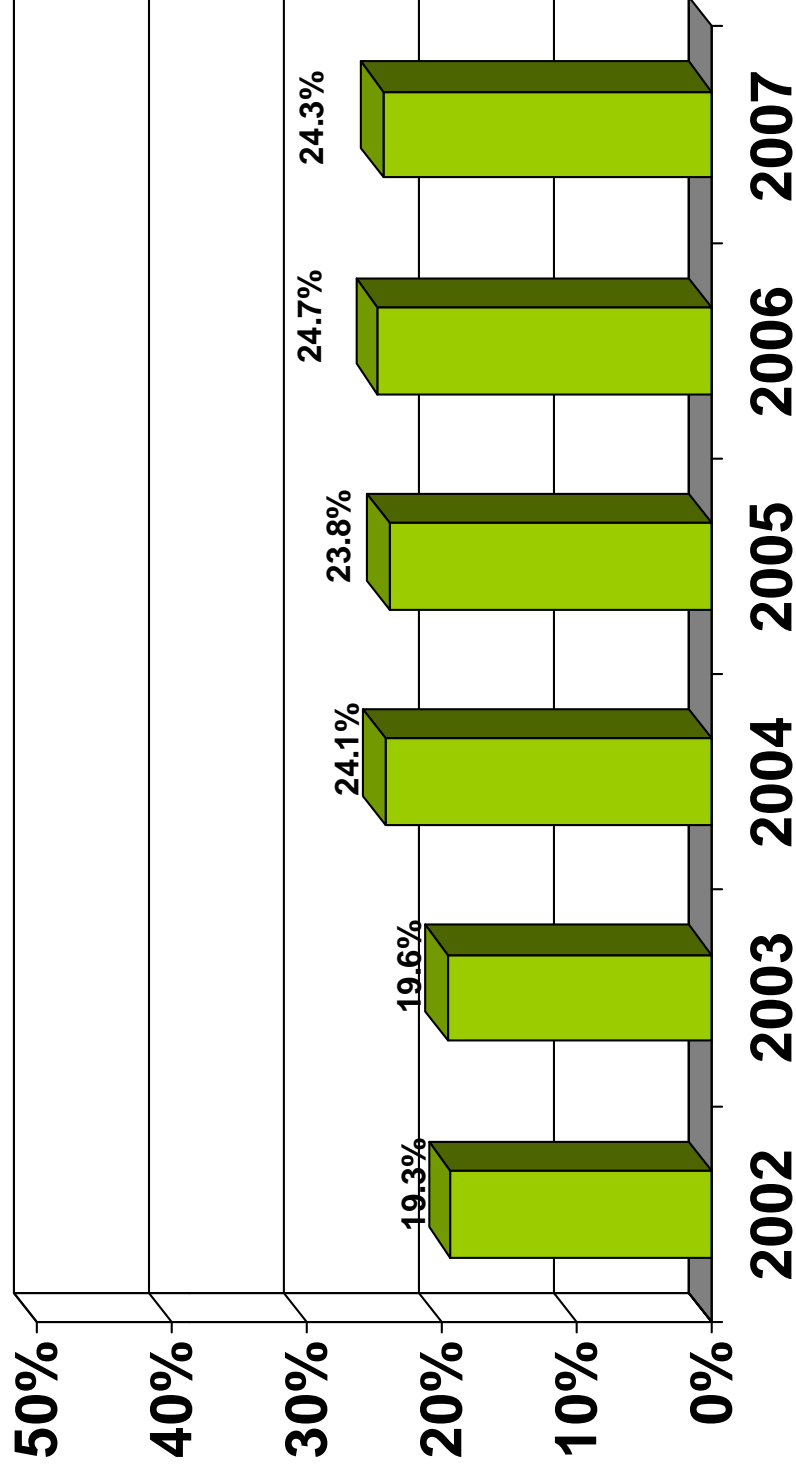
State General Fund Appropriations Revenue  
as a Percentage of Total Revenues (Ratio 1)  
Fiscal Years 2002 - 2007



# NAU

## Net Tuition and Fees Revenue as a Percentage of Total Revenues (Ratio 2)

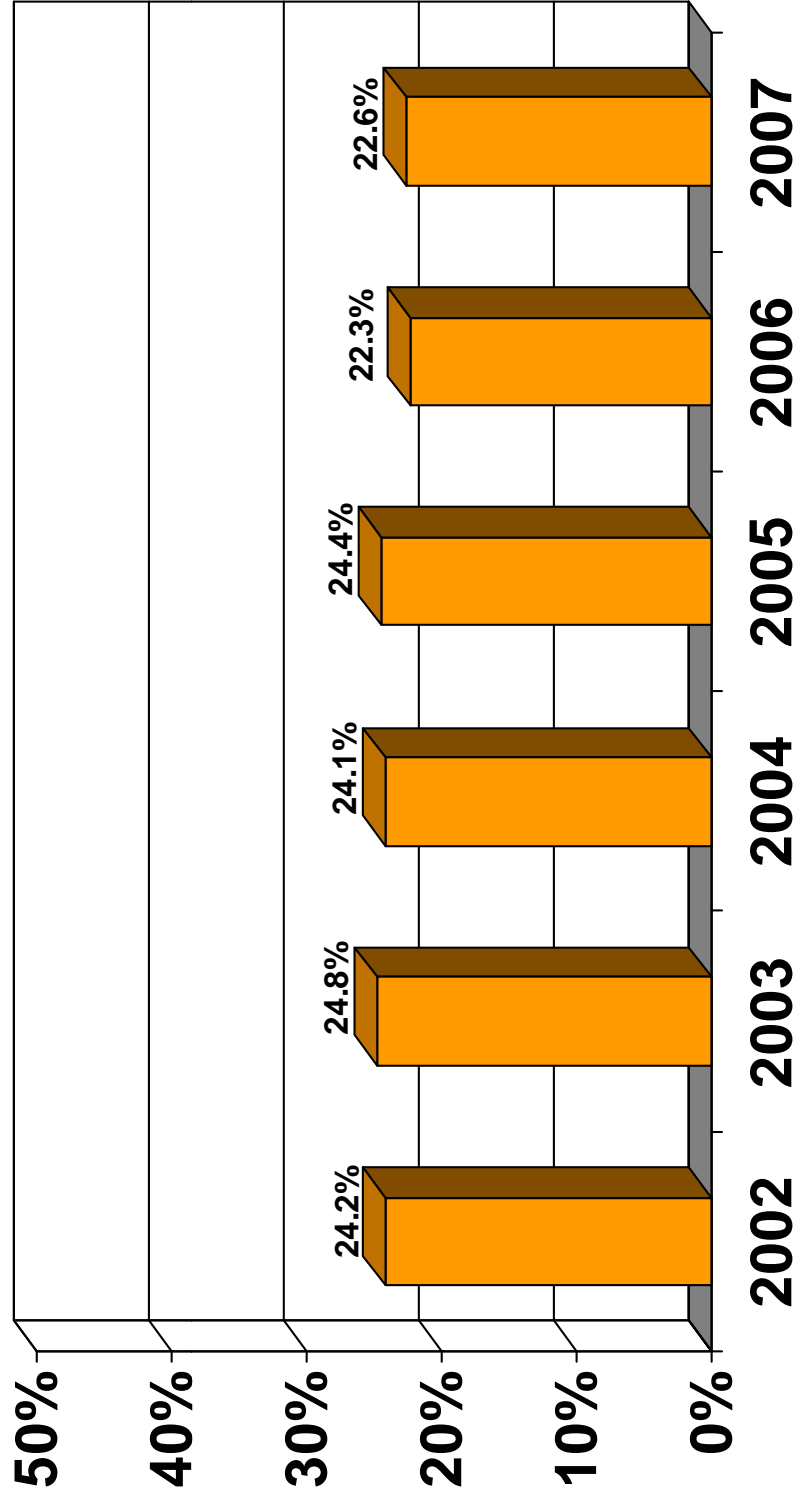
### Fiscal Years 2002 - 2007



# NAU

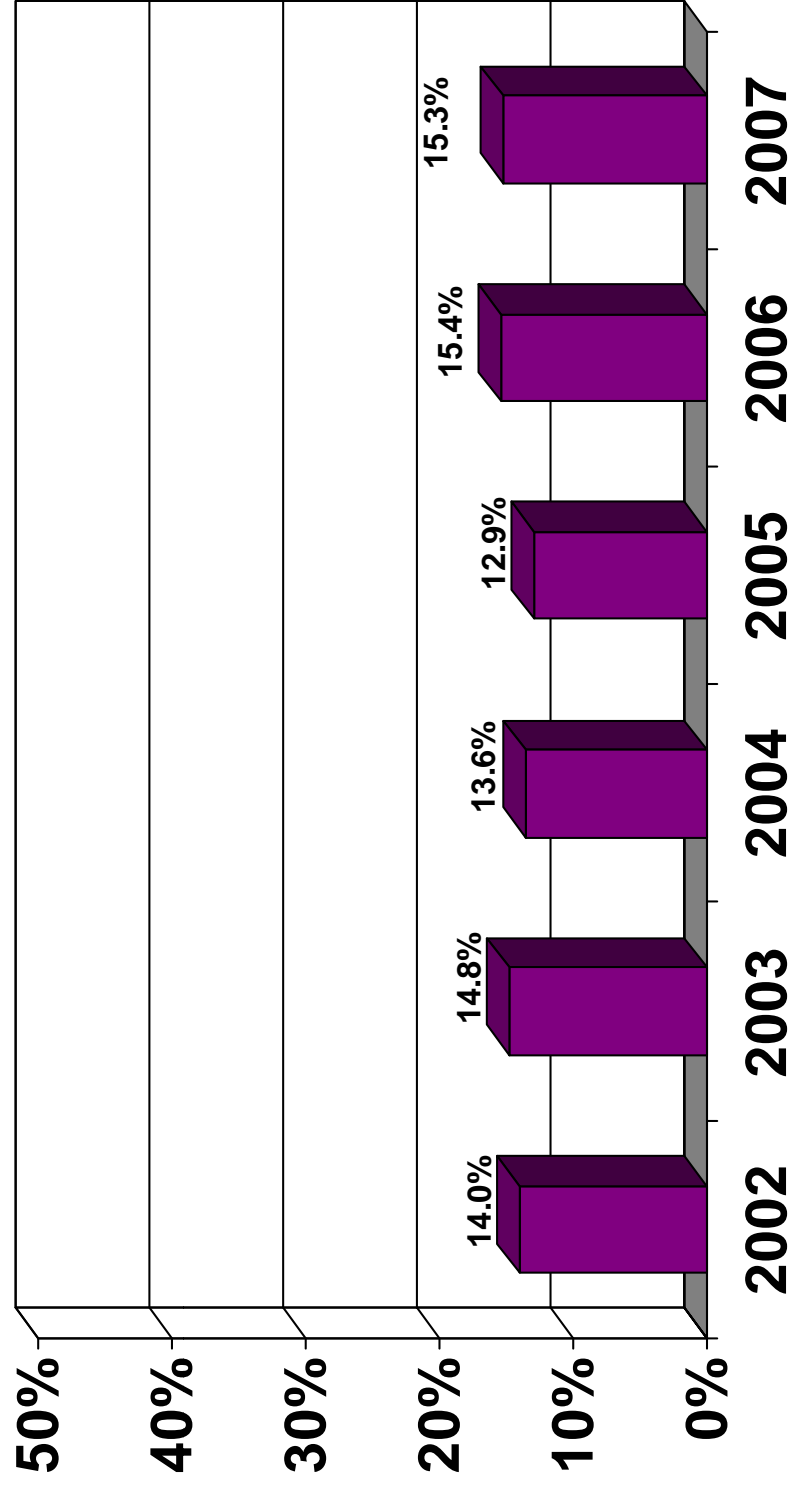
## Gifts, Grants & Contracts, and TRIF Revenues as a Percentage of Total Revenues (Ratio 3)

### Fiscal Years 2002 - 2007



TRIF = Technology and Research Initiative Funding, and is NAU's share of the state education sales tax.

**NAU**  
**Other Revenues**  
**as a Percentage of Total Revenues (Ratio 4)**  
**Fiscal Years 2002 - 2007**



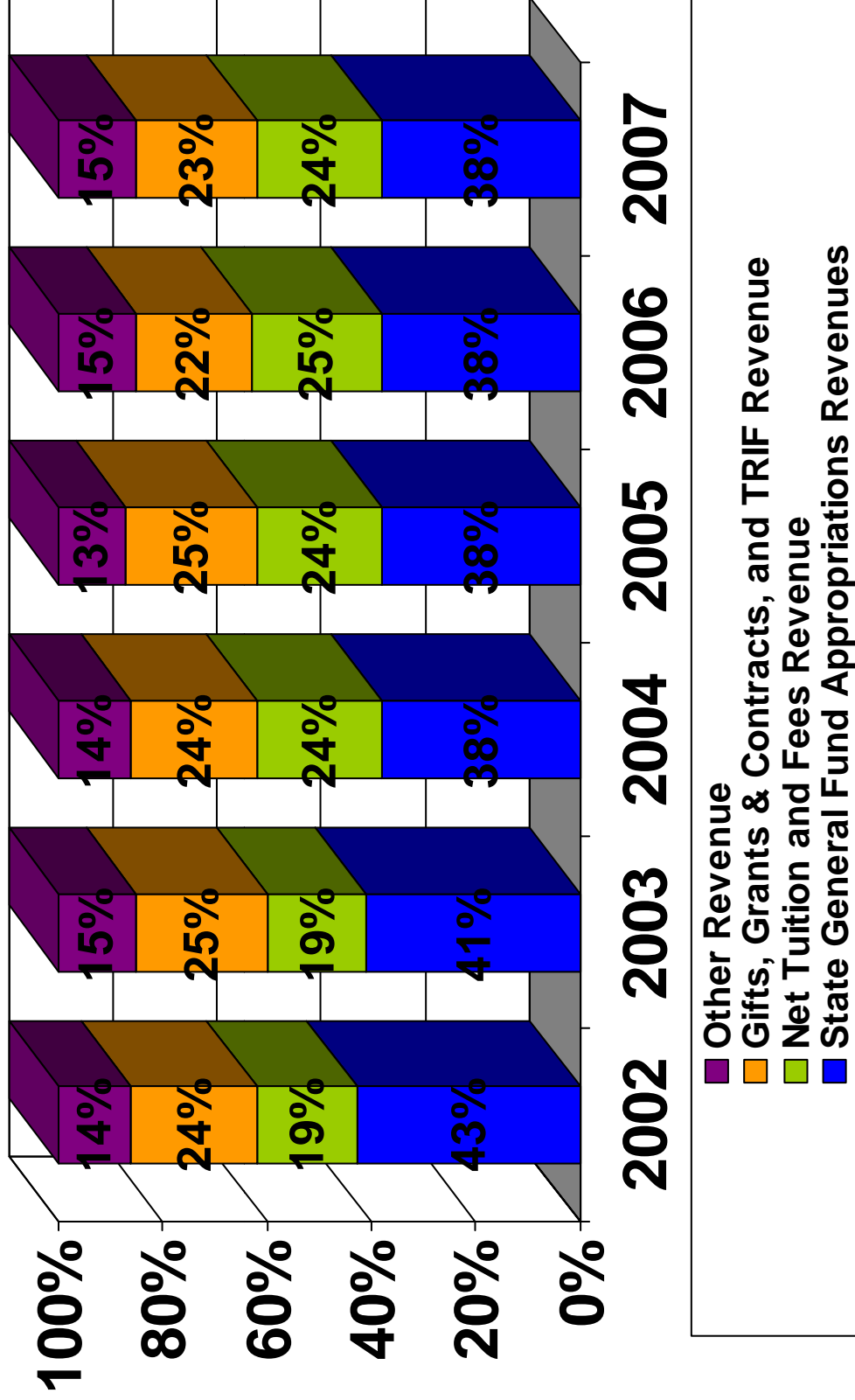
Other revenues primarily include auxiliary enterprises revenues, sales and services revenues of academic departments and net investment income.

# NAU

Graph F

## University Total Revenue Composition (Ratios 1 - 4)

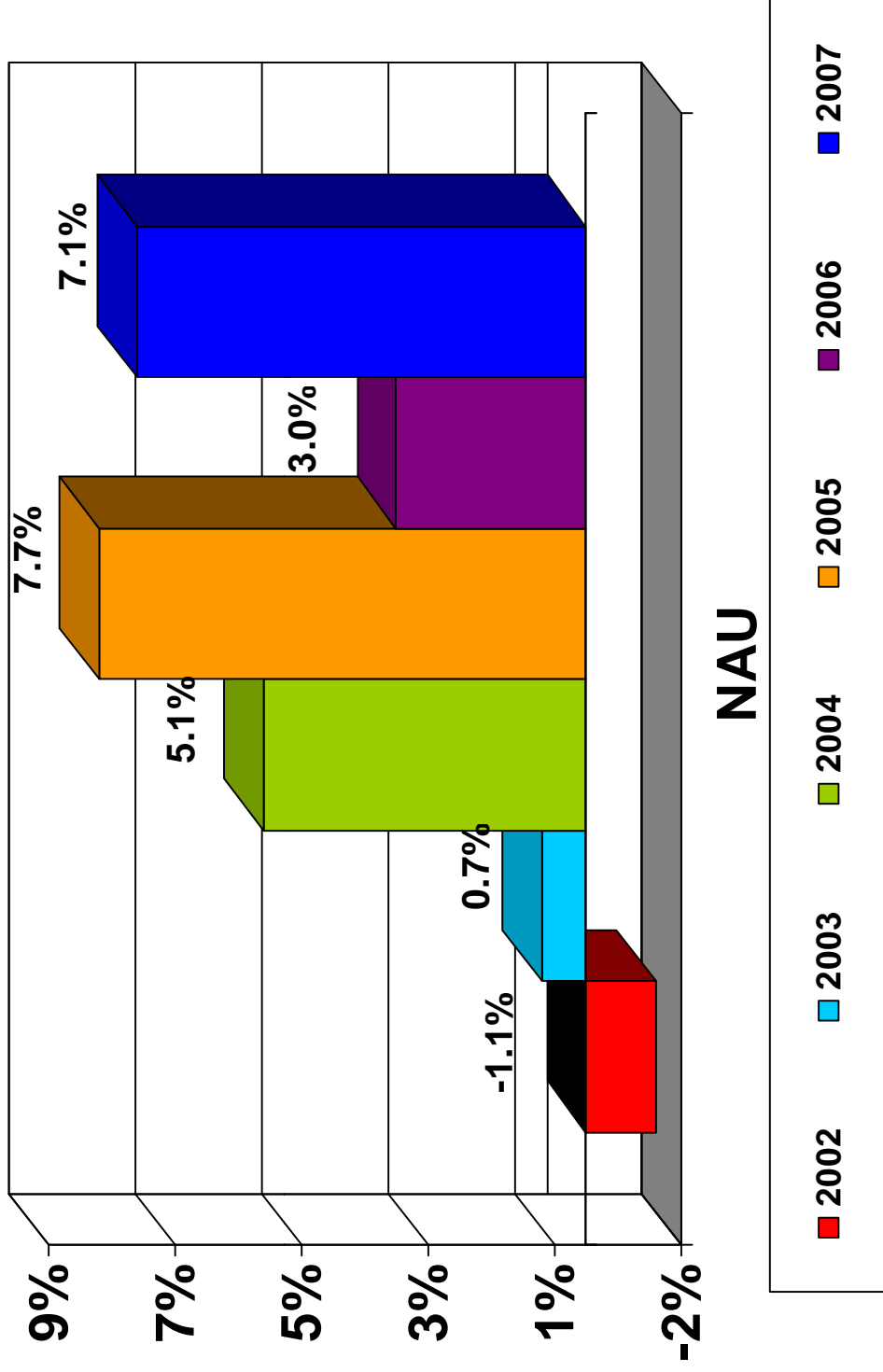
Fiscal 2002 - 2007



# NAU

## Net Revenues to Total Revenues (Ratio 5)

### Fiscal Years 2002 - 2007

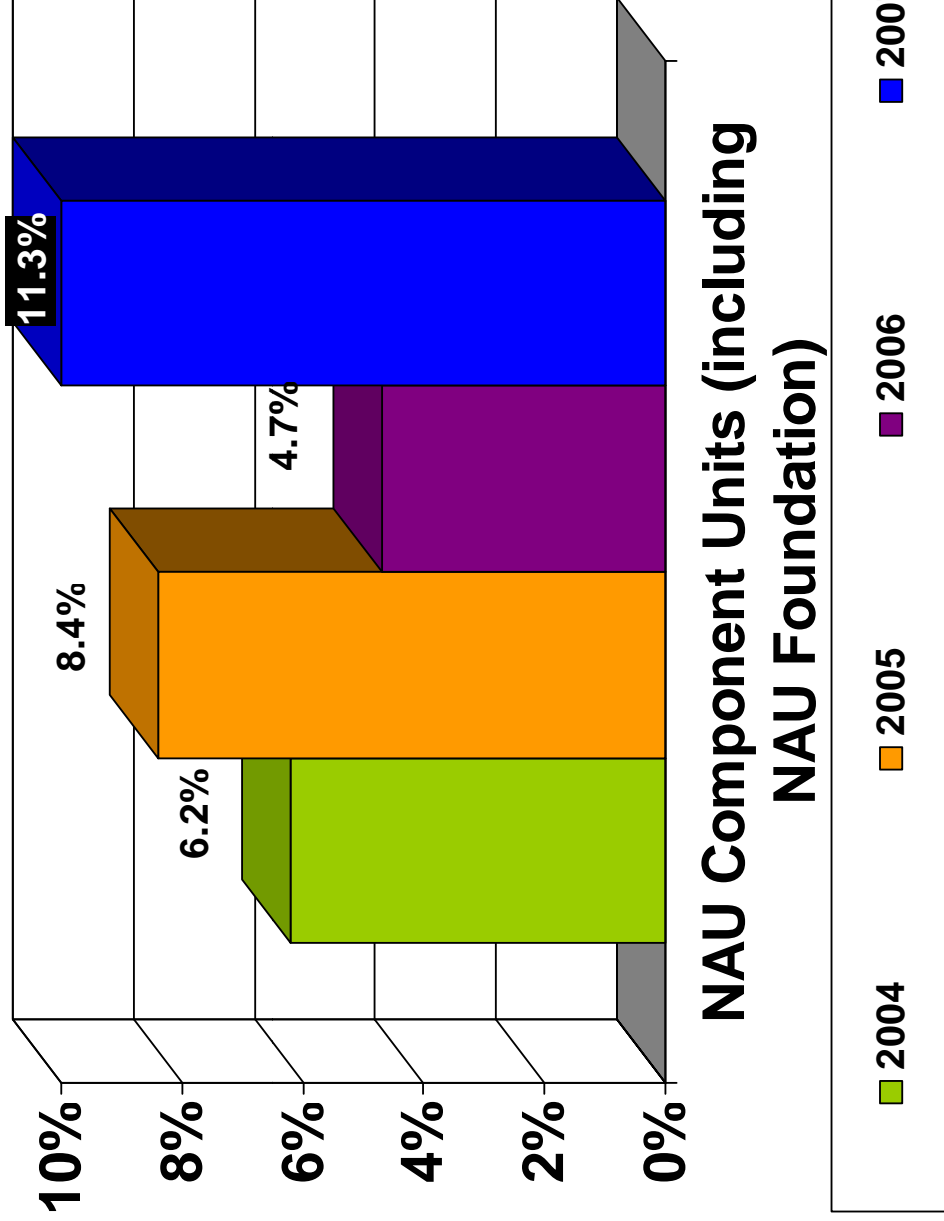


# NAU Component Units (including NAU Foundation)

Graph H

## Net Revenues to Total Revenues (Ratio 6)

Fiscal Years 2004 - 2007



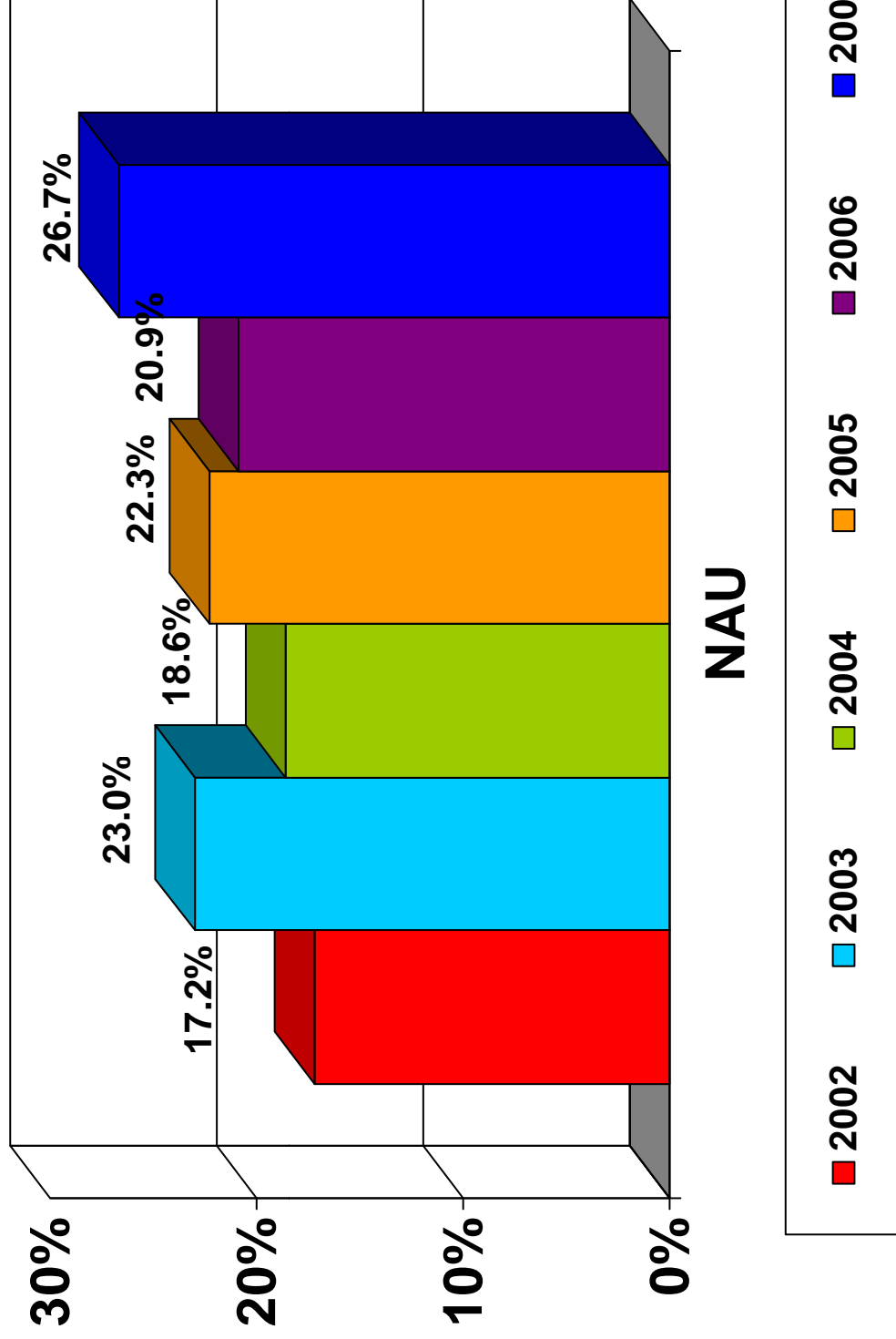
# NAU

Graph I

## Expendable Net Assets to Total Expenses (Ratio 7)

Fiscal Years 2002 - 2007

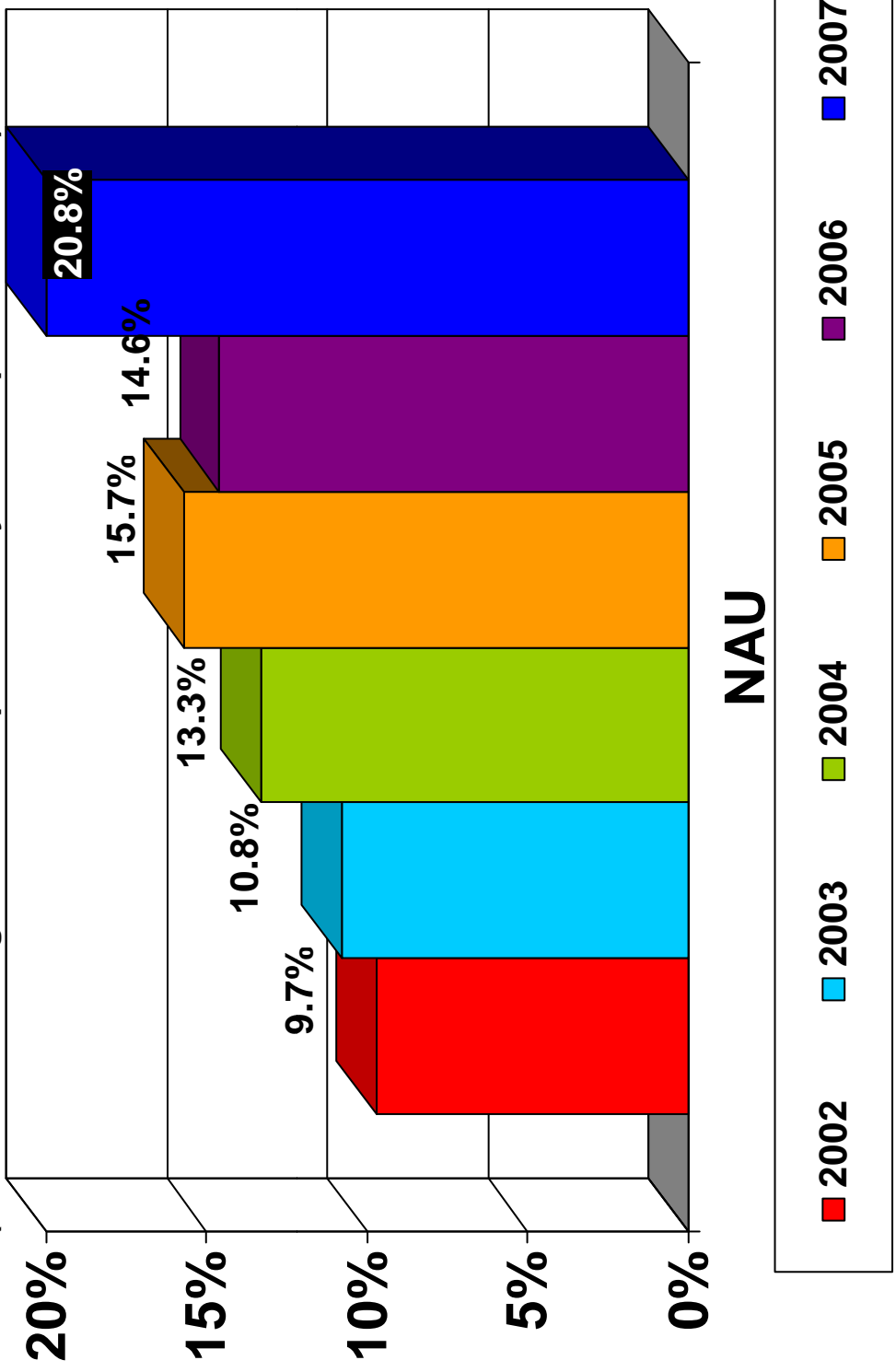
(Measures whether expendable net assets have kept pace with expenses.)



# NAU Unrestricted Net Assets to Total Expenses (Ratio 8)

Fiscal Years 2002 - 2007

(Measures coverage of annual operations by most liquid resources.)



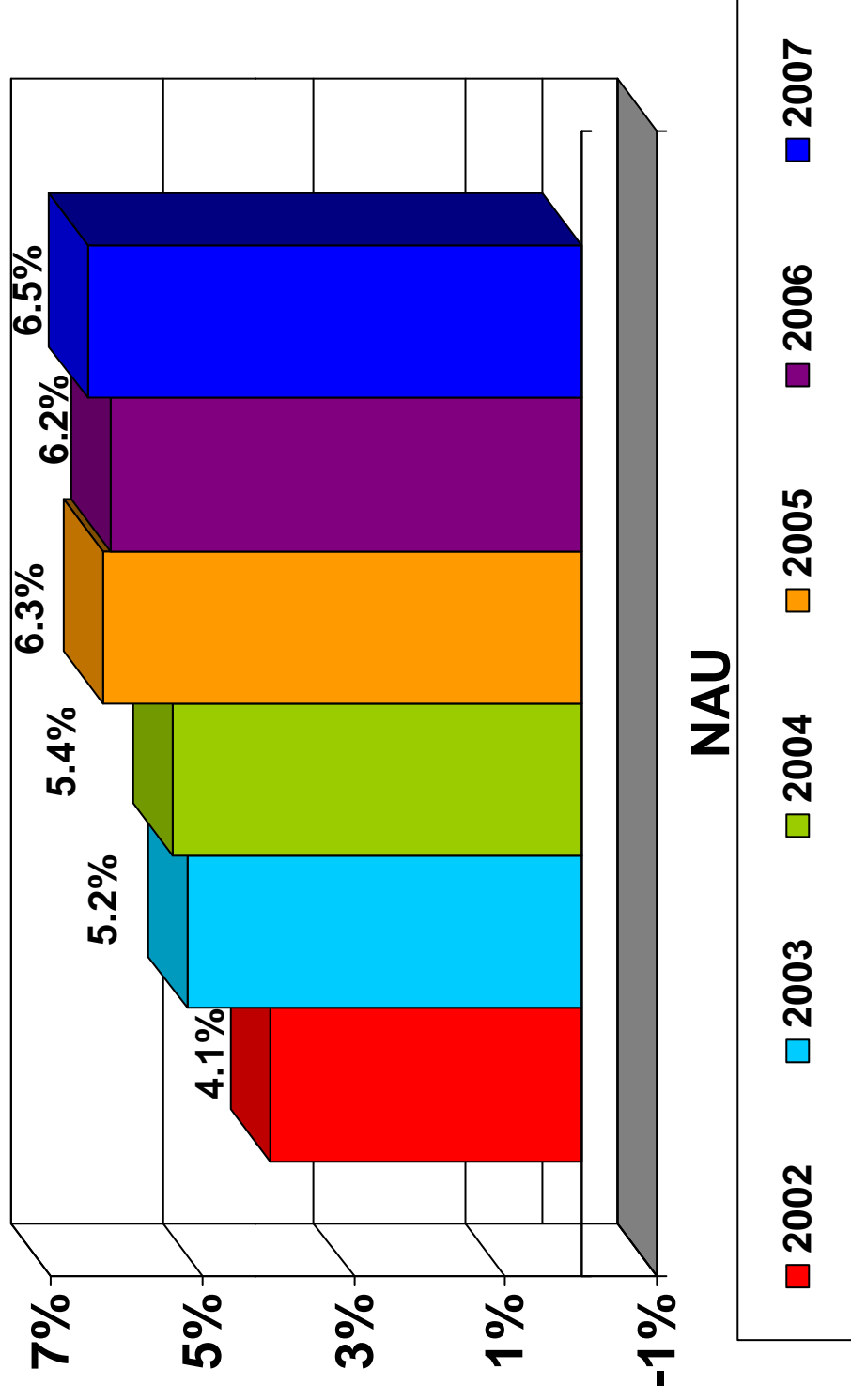
# NAU

Graph K

## Debt Service Payments to Total Expenses (Ratio 9)

Fiscal Years 2002 - 2007

(Measures the burden of debt service payments (principal and interest) relative to overall expenses.)



# NAU and NAU Component Units

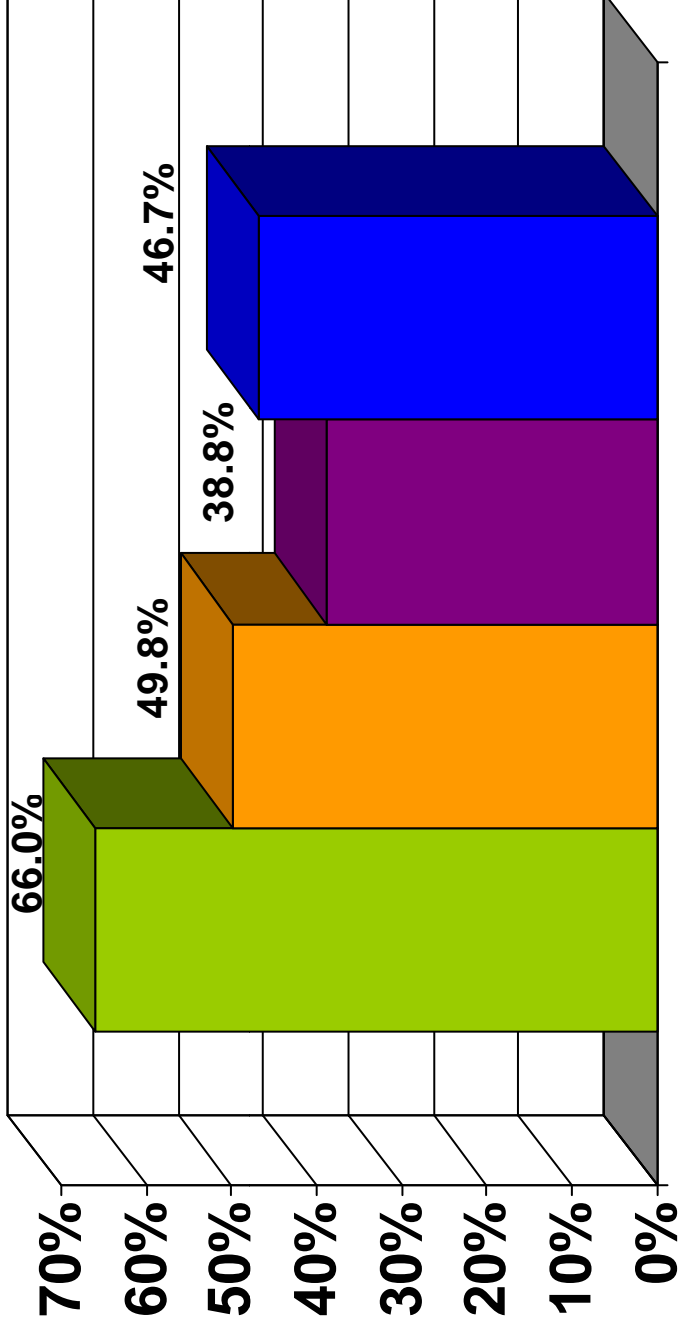
Graph L

(including NAU Foundation)

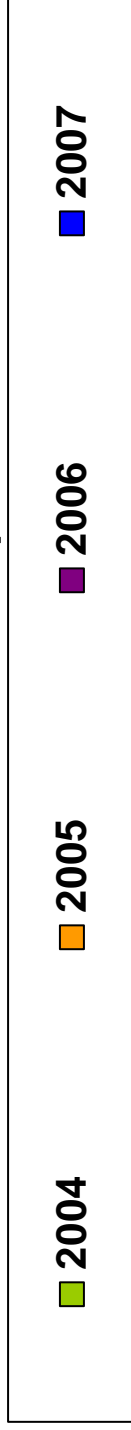
## Total Financial Resources to Direct Debt (Ratio 10)

Fiscal Years 2004 - 2007

(Measures coverage of debt by all available resources.)



## NAU & Component Units (including NAU Foundation)



12/07/2007

Only 2004-2007 information is available.

NAU Comptroller



THE UNIVERSITY OF ARIZONA  
Financial Ratios for Fiscal Years: 2002 to 2007  
(dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007
1	State General Fund Appropriations Total Revenues	329 997	324 1,083	317 1,149	334 1,204	358 1,295	390 1,385
UA only		33%	30%	28%	28%	28%	28%
2	Net Tuition and Fees Revenue Total Revenues	140 997	150 1,083	173 1,149	182 1,204	193 1,295	210 1,385
UA only		14%	14%	15%	15%	15%	15%
3	Gifts, Grants & Contracts, and TRIF Revenue Total Revenues	396 997	463 1,083	493 1,149	511 1,204	523 1,295	527 1,385
UA only		40%	43%	43%	42%	40%	38%
TRIF - Technology & initiative research funding. UA's share of the state education sales tax.							
4	Other Revenues Total Revenues	127 997	146 1,083	166 1,149	177 1,204	221 1,295	248 1,385
UA only		13%	13%	14%	15%	17%	18%
5	Net Revenues Total Revenues	19 997	34 1,083	15 1,149	13 1,204	32 1,295	62 1,385
UA only		2%	3%	1%	1%	2%	4%
6	Net Revenues Total Revenues	49 1,244	66 1,311	63 1,295	63 1,295	63 1,295	124 1,385
UA and component units		4%	5%	5%	5%	5%	8%
7	Expendable Net Assets Total Expenses	232 978	222 1,049	204 1,134	207 1,190	272 1,262	299 1,323
UA only		24%	21%	18%	17%	22%	23%
8	Unrestricted net assets Total expenses	120 978	121 1,049	107 1,134	101 1,190	150 1,262	166 1,323
UA only		12%	12%	9%	8%	12%	13%
9	Debt Service Payments (int & princ) Total Expenses	46 978	46 1,049	48 1,134	54 1,190	58 1,262	69 1,323
UA only		5%	4%	4%	5%	5%	5%
10	Total financial resources, net Direct debt	628 808	707 789	806 854	806 854	806 854	896 878
UA and component units		78%	90%	94%	94%	94%	102%

THE UNIVERSITY OF ARIZONA UNIVERSITY  
Financial Ratios Formulas

Ratio 1 UA only	$\frac{\text{State general fund appropriations}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 2 UA only	$\frac{\text{Tuition and Fees, net of scholarship allowance}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 3 UA only	$\frac{\text{Gifts, additions to endowments, grants, contracts, and state sales tax share (technology and research initiatives funding) - (Operating/Nonoperating/Capital)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 4 UA only	$\frac{\text{Auxiliary enterprises revenues, investment income, and all other revenues (operating and nonoperating) not in the other revenue categories}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 5 UA only	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 6 UA and component units	$\frac{\text{Net revenues (Total revenues less total expenses)}}{\text{Total Revenue (Operating/Nonoperating/Other Revenues and Gains)}}$
Ratio 7 UA only	$\frac{\text{Expendable Net Assets (Unrestricted and expendable restricted net assets)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 8 UA only	$\frac{\text{Unrestricted net assets}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 9 UA and component units	$\frac{\text{Debt service payments (interest payments per SRECA and principal payments per cash flow)}}{\text{Total Expenses (operating, nonoperating and other expenses and losses)}}$
Ratio 10	$\frac{\text{Total financial resources (unrestricted and restricted - expendable and nonexpendable - net assets of the Univ, plus permanently and temporarily restricted and unrestricted net assets of the component units, less: net property and equipment of the component units)}}{\text{Total direct debt (total outstanding capital debt of the Univ and component units)}}$

## THE UNIVERSITY OF ARIZONA

### FINANCIAL STATEMENTS ANALYSIS – FISCAL 2007

Issue. The purpose of this analysis is to assist the Arizona Board of Regents (ABOR) in evaluating the financial position of The University of Arizona (UA) as of June 30, 2007. Beginning with fiscal 2002 the three Arizona universities governed by the ABOR adopted the Governmental Accounting Standards Board (GASB) Statement No. 35 financial reporting model, as required by the GASB. The financial ratios that accompany this report were prepared for the six years covered by the GASB 35 reporting model. In fiscal 2004 the Universities adopted GASB No. 39 which required that information regarding each University's component units be included in the University's financial report. Therefore, in instances where information from the Universities' component units is used in a ratio, only four years of financial information is presented.

Discussion. The Financial Statement Analysis for UA addresses the following four questions through the presentation of pertinent financial ratios:

1. How has the composition of UA's revenue changed over the period fiscal 2002 through 2007? (Ratios 1 – 4)

Graph A shows the overall UA revenue trends over the last six years.

- Ratio 1 – State General Fund Appropriations Revenue as a Percentage of Total Revenues. (Graph 1)

During this period the percentage of general fund appropriations to total revenues has decreased each year. During the six year period reported, the percentage of general fund appropriations revenues to total revenues has declined from 33.0% in fiscal 2002 to 28.2% in fiscal 2007. State appropriations dollars have increased by \$61 million, or a percentage increase of 18.5% during this period, from \$329 million in fiscal 2002 to \$390 million in fiscal 2007.

- Ratio 2 – Net Tuition and Fees Revenue as a Percentage of Total Revenues. (Graph 2)

During this period the percentage of net tuition and fees revenues to total revenues has increased from 14.0% in fiscal 2002 to 15.2% in fiscal 2007, with increases occurring in four of the six years being reported. Although UA has increased its tuition rate each of these years, those increases have not resulted in a decline in student enrollment. Increases in tuition have allowed the University to enhance instructional programs that have not received incremental increases in state appropriations funding. The University has also used increased tuition and fees revenues to provide

increased financial aid programs funding. Total net tuition and fees revenues have increased by \$69 million during this period, from \$140 million in fiscal 2002 to \$209 million in fiscal 2007 resulting in a percentage increase of 49.5% during the six year period being reported.

- Ratio 3 – Gifts, Grants, Contracts, and TRIF revenues as a Percentage of Total Revenues. (Graph 3)

The percentage reflected by this ratio has shown only a slight fluctuation during the six year reporting period from a high of 42.9% in fiscal 2004 to a low of 38.1% in fiscal 2007. Total gifts, grants, contracts, and TRIF dollars increased during this period by \$131 million from \$396 million in fiscal 2002 to \$527 million in fiscal 2007. This was a 33% increase in this revenue source during the reporting period. With the completion of several major new research facilities in fiscal 2007, including Medical Research Building, Meinel Optical Science Center, Chemistry Building, and the Agriculture Research Complex Shell Space project, UA anticipates the grants and contracts revenue source to increase over the next few years, both in total dollars and as a percentage of total revenues.

- Ratio 4 – Other Revenues as a Percentage of Total Revenues. (Graph 4)

Other revenues include auxiliary enterprises revenues, net investment income, and educational department sales and services revenues. This revenue source has grown tremendously for the time period reported with an overall increase of 95% in dollars between fiscal 2002 and fiscal 2007. In dollar totals, auxiliary enterprises revenues have increased from \$96 million in fiscal 2002 to \$144 million in fiscal 2007, a 50% increase. Sales and services of educational departments, which includes conference and seminar registration fees for UA sponsored events, have increased from \$17 million to \$24.5 million.

- Total Revenue Composition. (Ratios 1 – 4). (Graph B)

Over the six year reporting period UA has experienced a relative decline (on a percentage basis) of the support it receives directly from the State Legislature through general fund appropriations. The percentage of general fund appropriations as a percentage of total revenues has declined from approximately 33% in fiscal 2002 to approximately 28% in fiscal 2007. This decline in state general fund support has been primarily supplemented by increased student tuition and fees, increasing as a percentage of total revenues from 14% in fiscal 2002 to 15% in fiscal 2007. Total University revenues have increased from \$997 million in fiscal 2002 to \$1,385

million in fiscal 2007, a 38.9% increase.

Although the University anticipates state general fund appropriations will continue to decline as a percentage of total revenues, it is expected in future years this decline will be caused by increased grants and contracts activity, the result of the emphasis recently being placed on improving the University's research infrastructure, and the opening of two research buildings in fiscal 2006.

2. Is UA living within its available resources? (Ratios 5 and 6) (Graphs 5 and 6)

The ratio of net revenues to total revenues (Ratio 5) for UA ranges from a low of 1.1% in fiscal 2005 to a high of 4.5% in fiscal 2007. Typically it is desired for this ratio to be positive. The UA has maintained positive growth over the past six year period. While it is not a very large percentage increase, it has been positive none-the-less, even during a period of reduced State support and a time of growth for many programs and facilities. This means that UA has been able, to generate sufficient revenues to meet its operational needs on a year to year basis.

Ratio 6 shows this same ratio, but for a four year period and includes the net revenues and total revenues of UA's component units, in addition to those of UA. The trend of this ratio shows positive results.

3. Have expendable net assets kept pace with expenses? (Ratios 7 and 8) (Graphs 7 and 8)

The ratio of expendable (restricted and unrestricted) net assets to total expenses over the six years ranges between 17.4% in fiscal year 2005 to 23.7% in fiscal year 2002, with an average of 20.75%. This ratio measures the financial strength of the University by indicating the percentage of useable net assets at the end of the year to total expenses. The percentage of 22.6% indicates the University has nearly twelve weeks of annual spending available from end of year expendable net assets. This could possibly limit UA's ability to respond to any emergencies or unforeseen needs.

This ratio is further limited in Ratio 8 by looking at only unrestricted net assets. With this unrestricted net asset limitation, the University had approximately six and a half weeks of spending coverage at the end of fiscal 2007, up from six weeks of coverage in fiscal 2006.

4. Can UA repay its incurred debt? (Ratios 9 and 10) (Graphs 9 and 10)

The ratio of debt service payments to total expenses is useful in determining possible future bond ratings. A ratio of debt service

payments to expenses of no more than 10% is desirable. The fiscal 2007 debt service ratio for UA was 5.2%, well within the acceptable range. This percentage is, however, expected to increase in future years as debt service payments begin to increase. Given the current structure of existing and planned debt service payments, this expected increase will be noticeable in fiscal 2008.

Total financial resources to direct debt for UA and its component units (Ratio 10) is a broader measure of the ability of UA and its component units to cover debt as of the end of the fiscal year. The ratio has increased over the four year period reported, the fiscal 2007 ratio of 102% reflects the ability of UA and its component units to repay all outstanding debt without undue financial hardship.

Summary. The analysis of UA's financial position shows:

- There is a continued trend at UA towards an increasing reliance on revenue sources other than state general fund appropriations. State appropriations have not kept pace proportionally with overall University revenues. State general fund appropriations revenues as a percentage of total revenues have declined each of the six years included in these ratios. In the years reported on this schedule, this decline in state support has been offset by increases in net tuition and fees and other revenues. In looking to the future, the University anticipates grants and contracts revenues to continue as a significant revenue source due to new research facilities recently opened, and other commitments being made in the research area.
- UA generated relatively small positive net revenues each year. Although UA's total revenues increased by approximately \$388 million between fiscal 2002 and fiscal 2007, its net revenues for the last six years have been no greater than \$62 million, just four and a half percent of total revenues.
- Given its relatively small net revenues in any given year, the University has a more limited ability to react to emergencies or unforeseen needs.
- Based on the debt ratios reported, UA, as well as its component units, can repay current levels of debt and have the capacity for future additional debt financings.

Conclusion. As the trend toward declining percentages of State appropriations to total revenues continues, the University must have additional resources to meet their ongoing operational and capital needs. These additional resources

for the years reported on were primarily tuition and fees generated from increases in undergraduate and graduate, resident and non resident tuition and fees. UA's financial position has remained essentially the same during the last six years, having neither significantly worsened nor improved. The debt capacity ratio (Ratio 9) as reported is not indicative of the long-term since it does not include principal payments on recently issued debt realignment, since those payments are structured to begin in future years, most noticeably in fiscal 2008.



# Financial Graphs

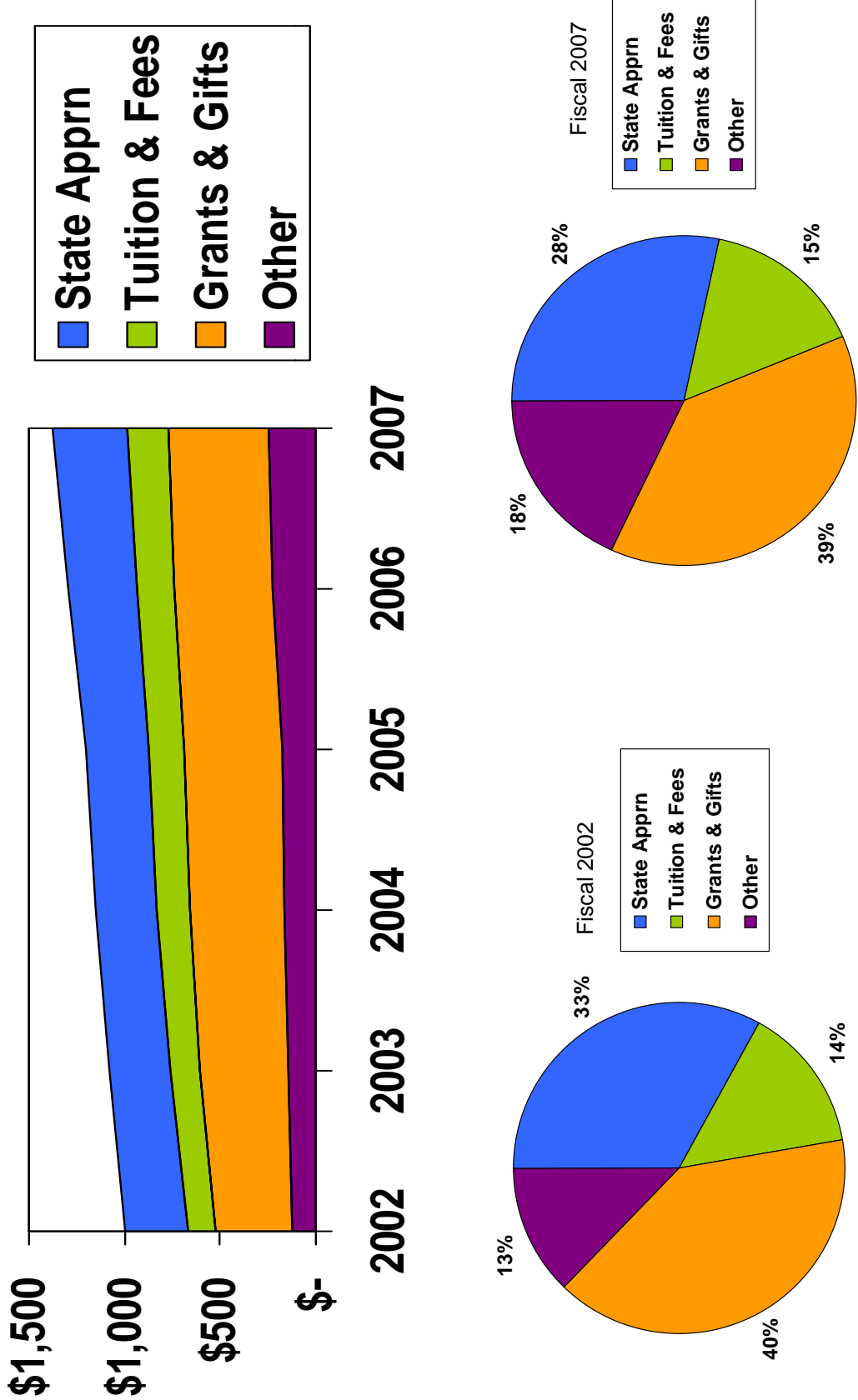
(Based on Financial Ratios Presented to the  
Arizona Board of Regents)

Fiscal Years 2002 - 2007

# UA REVENUE TRENDS

Graph A

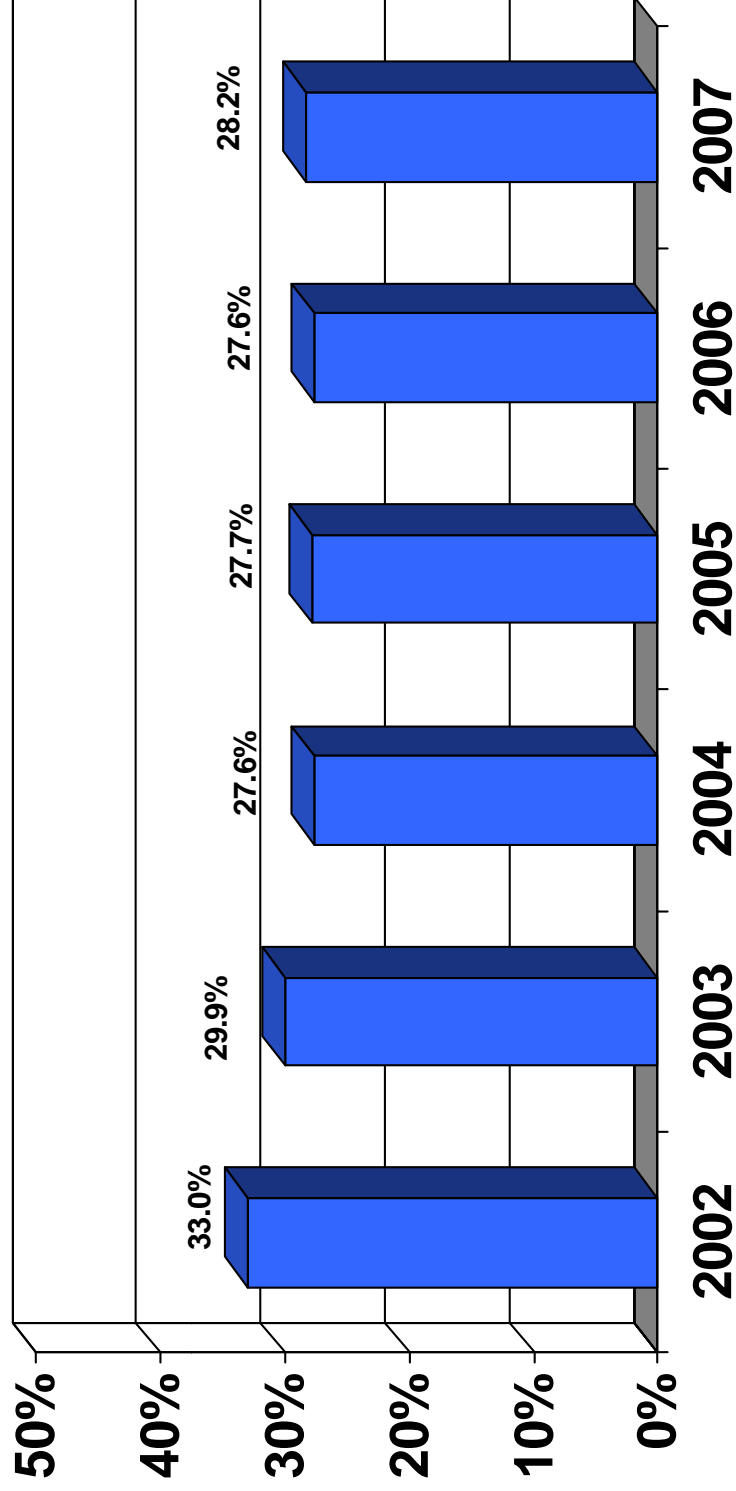
(Dollars in Millions)



# The University of Arizona

## State General Fund Appropriations Revenue as a Percentage of Total Revenues (Ratio 1)

Fiscal Years 2002 - 2007

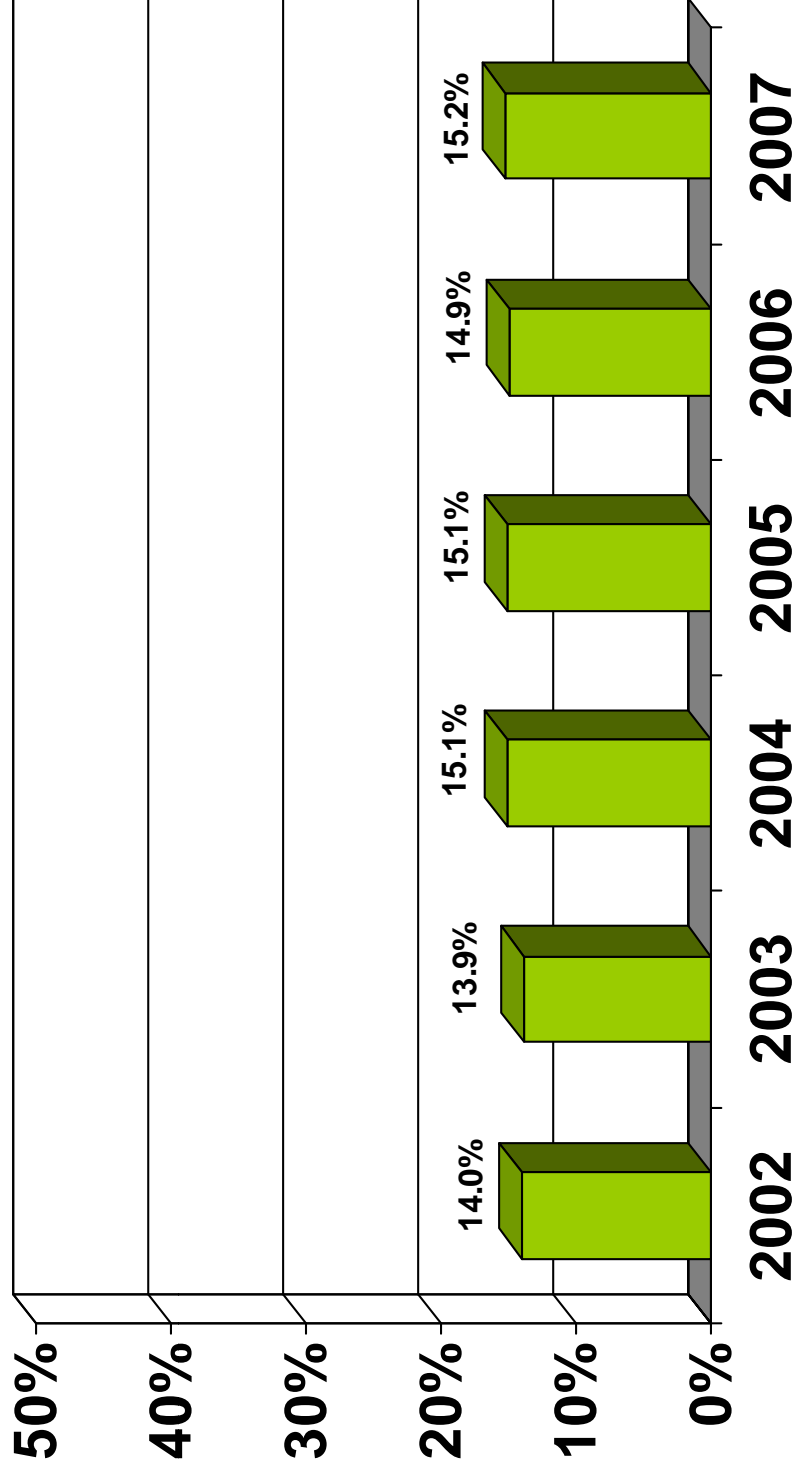


# The University of Arizona

## Net Tuition and Fees Revenue

### as a Percentage of Total Revenues (Ratio 2)

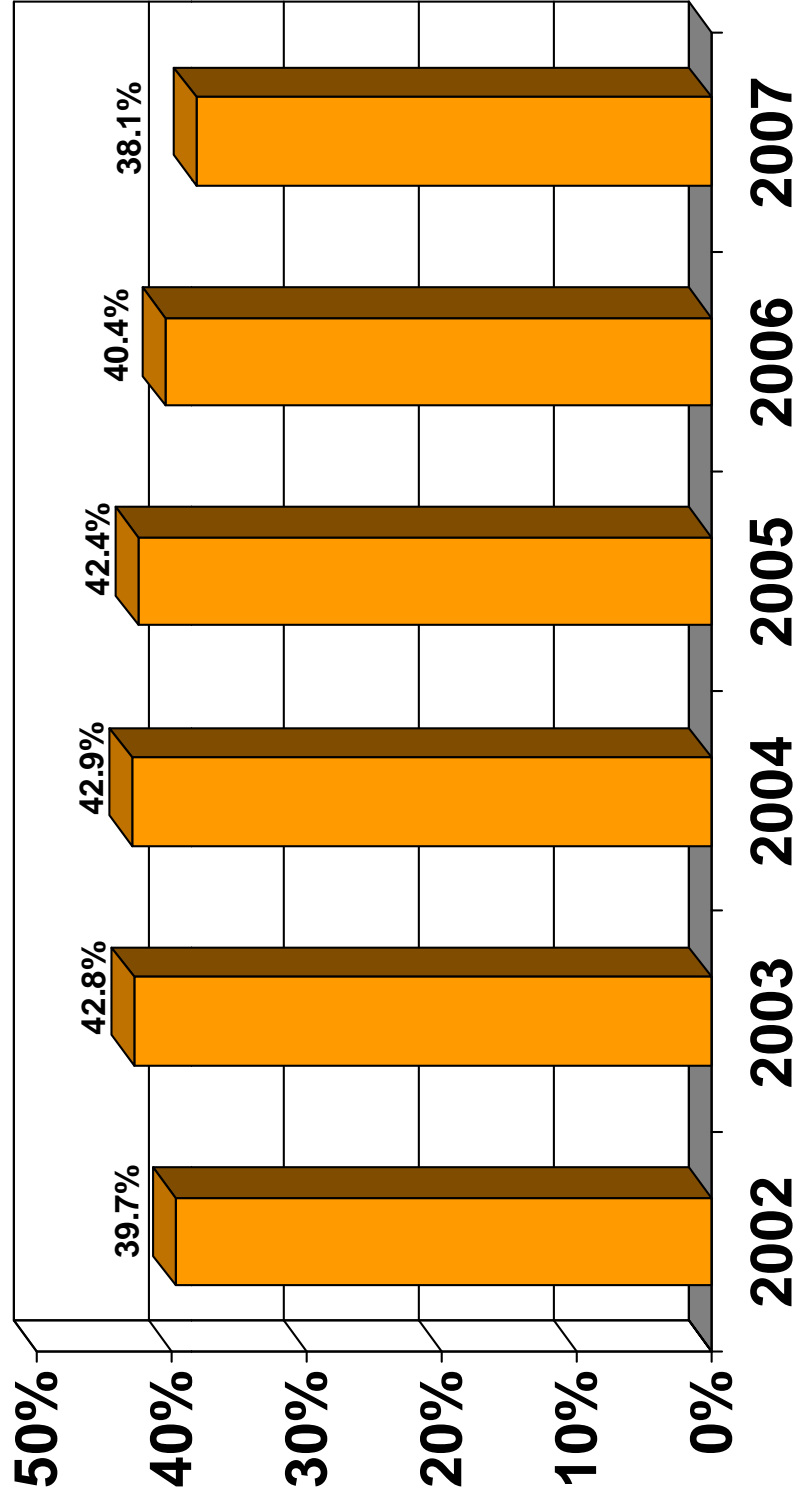
Fiscal Years 2002 - 2007



# The University of Arizona

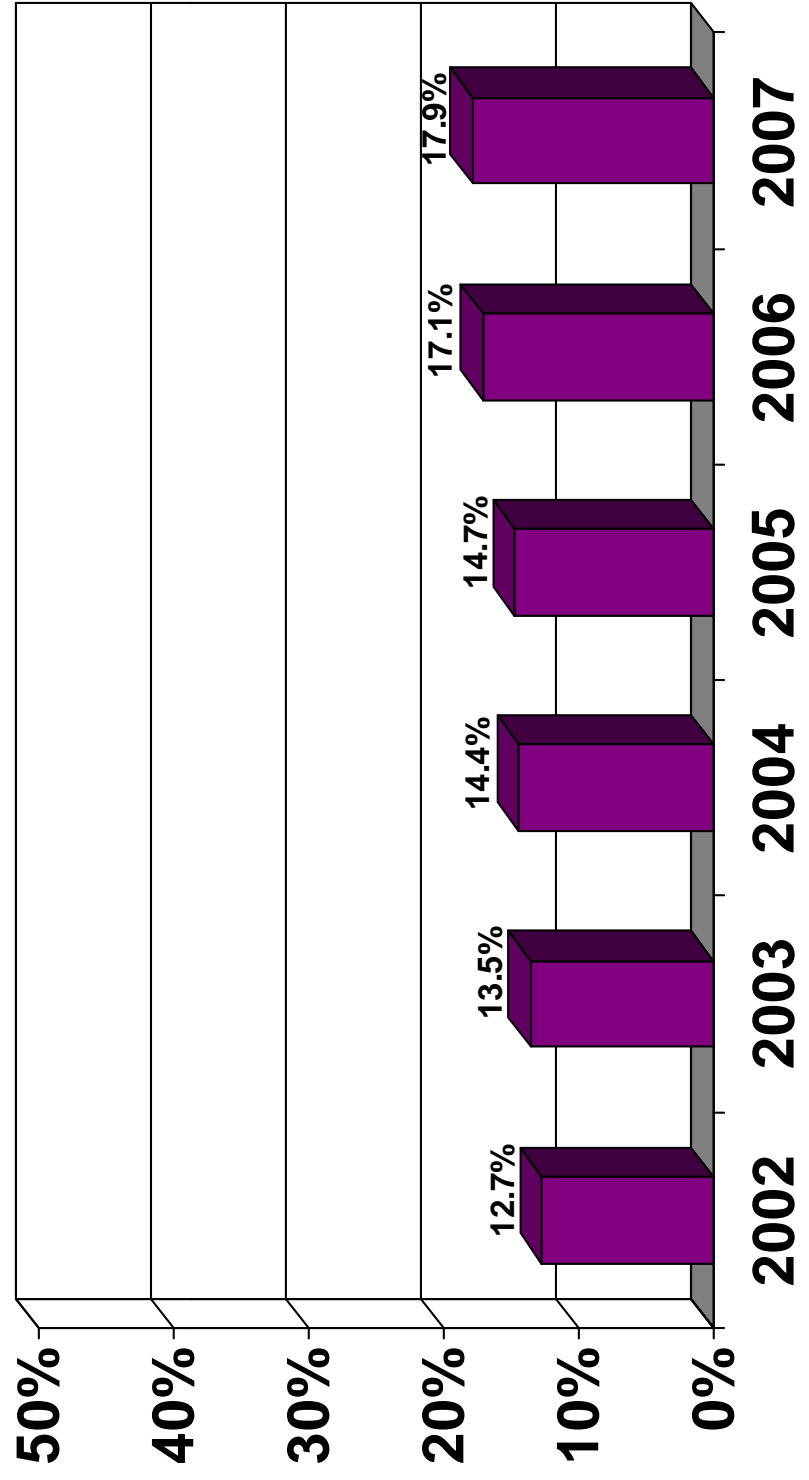
## Gifts, Grants & Contracts, and TRIF Revenues as a Percentage of Total Revenues (Ratio 3)

Fiscal Years 2002 - 2007



TRIF = Technology and Research Initiative Funding, and is UA's share of the state education sales tax.

# The University of Arizona Other Revenues as a Percentage of Total Revenues (Ratio 4) Fiscal Years 2002 - 2007

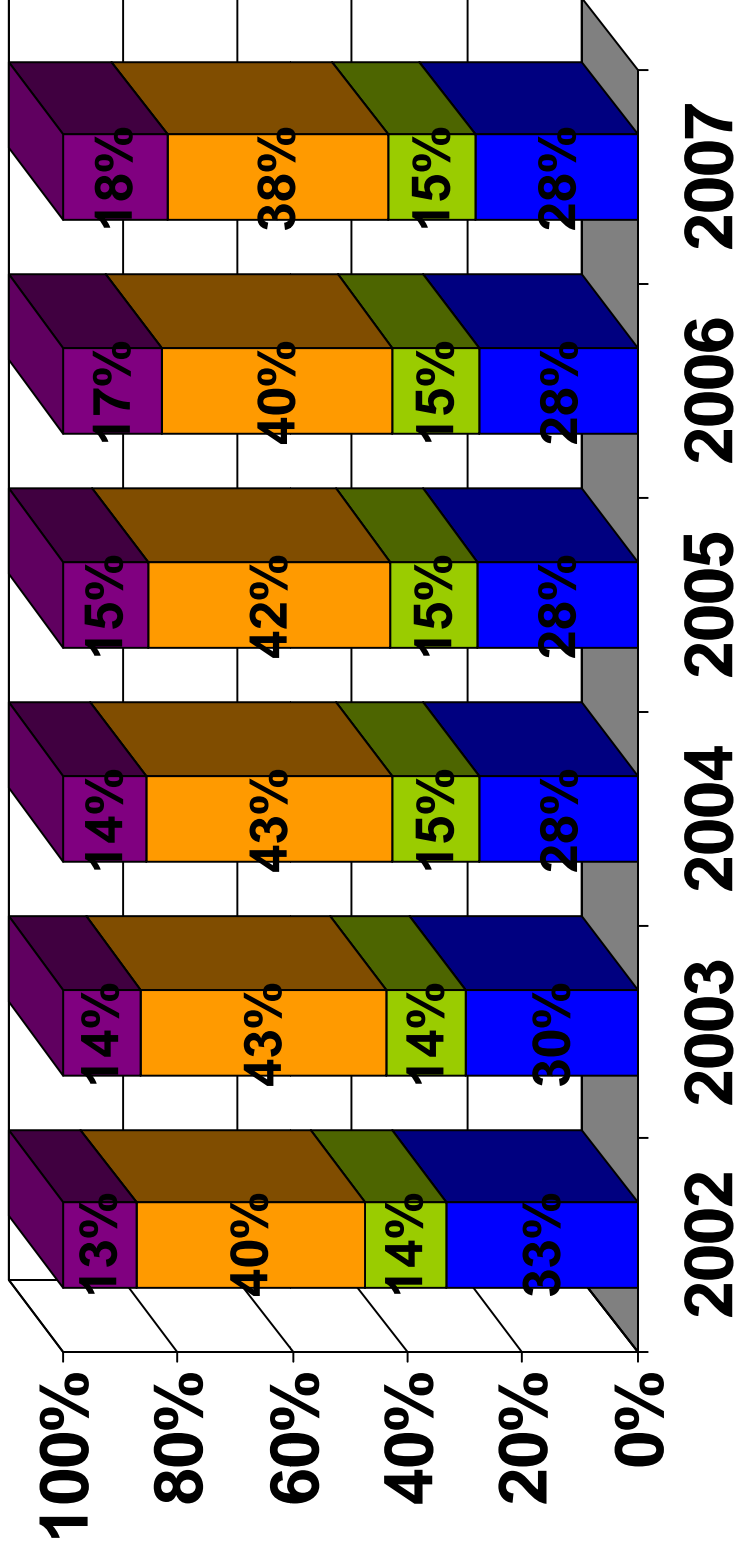


Other revenues primarily include auxiliary enterprises revenues and net investment income.

# The University of Arizona

## University Total Revenue Composition (Ratios 1 - 4)

Fiscal 2002 - 2007



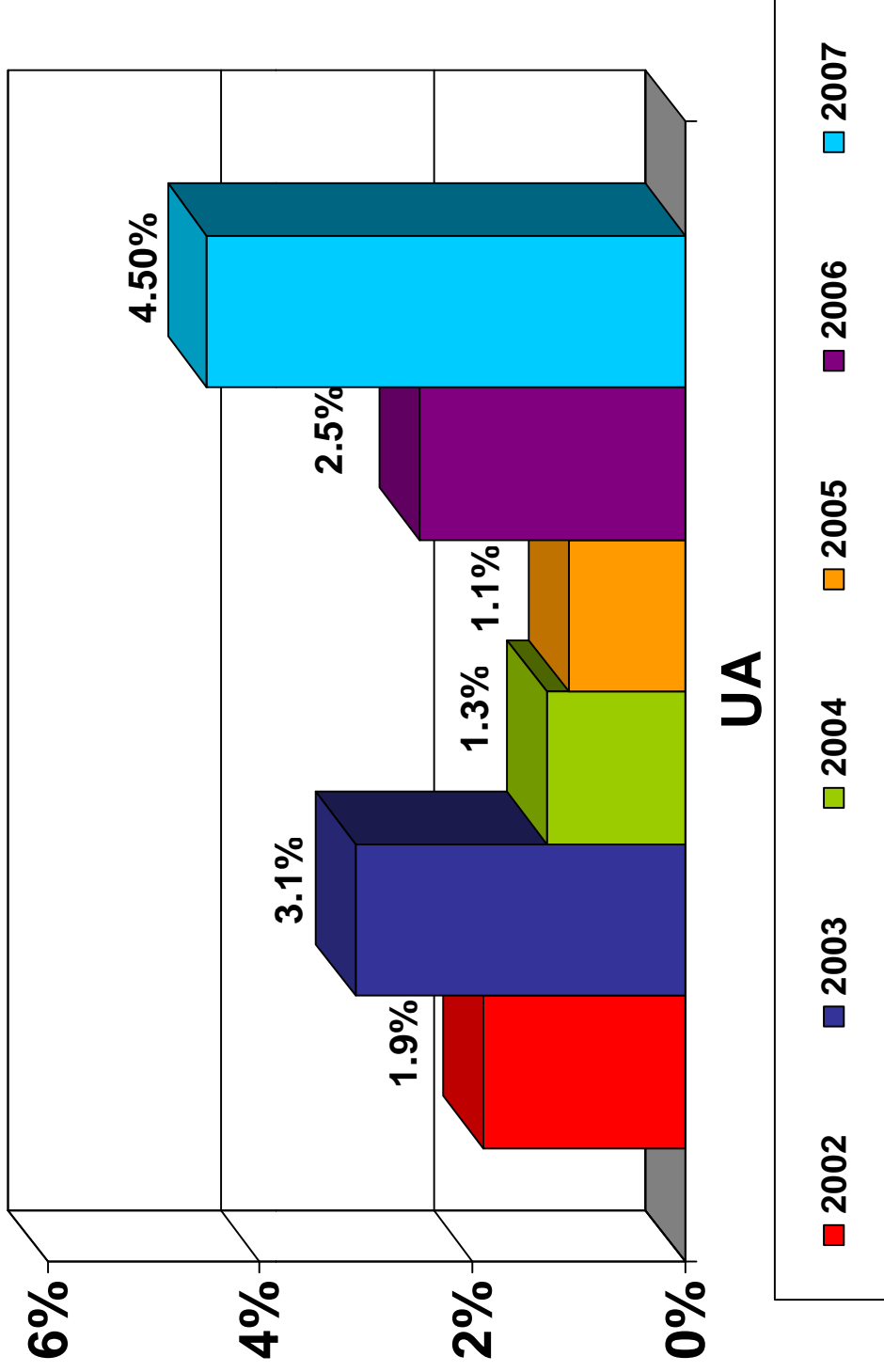
- Other Revenue
- Gifts, Grants & Contracts, and TRIF Revenue
- Net Tuition and Fees Revenue
- State General Fund Appropriation

# The University of Arizona

## Net Revenues to Total Revenues (Ratio 5)

Fiscal Years 2002 - 2007

(Measures the excess margin (or deficit) by which annual revenues cover expenses.)



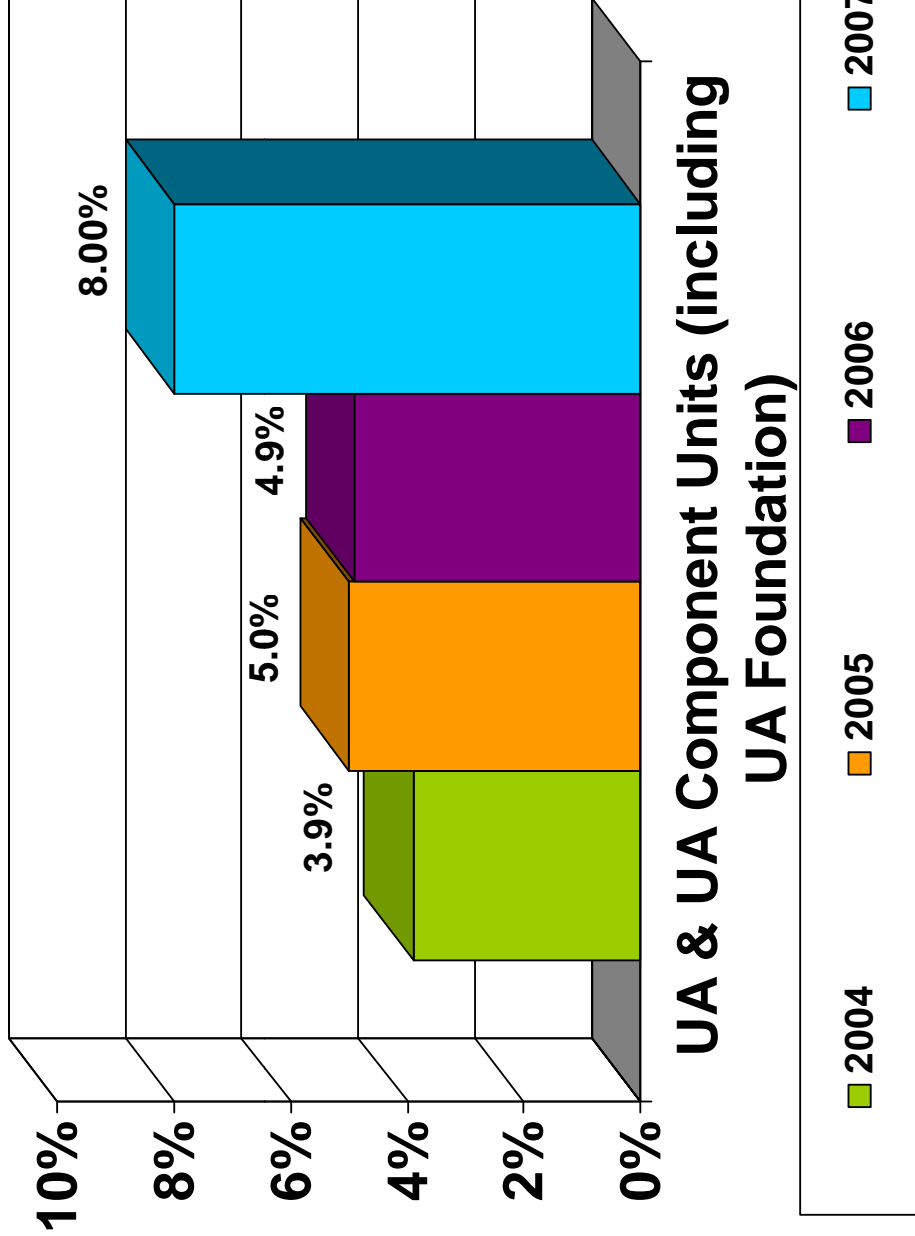
# UA & UA Component Units (including UA Foundation)

Graph 6

## Net Revenues to Total Revenues (Ratio 6)

Fiscal Years 2004 - 2007

(Measures the excess margin (or deficit) by which annual revenues cover expenses.)



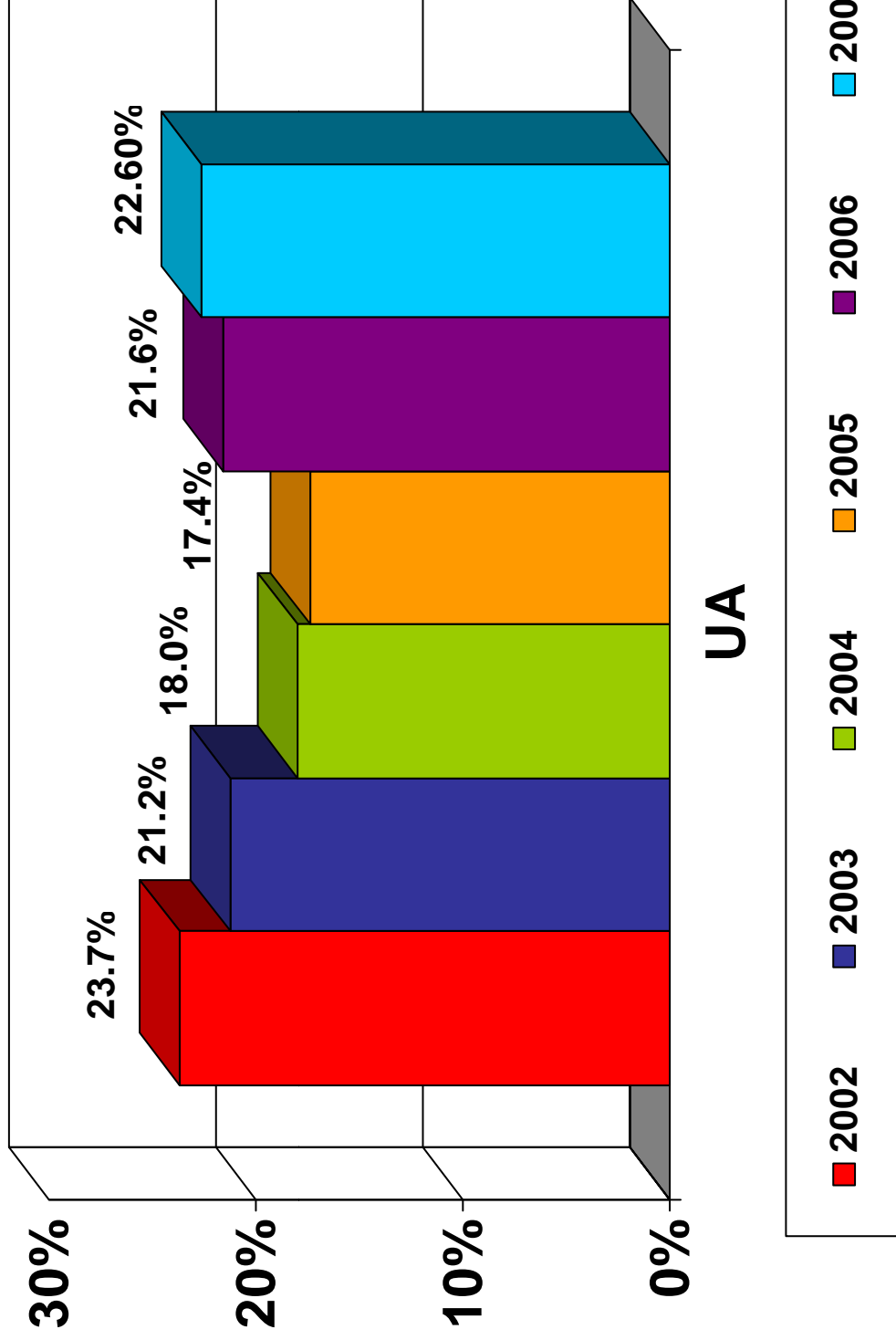
# The University of Arizona

Graph 7

## Expendable Net Assets to Total Expenses (Ratio 7)

Fiscal Years 2002 - 2007

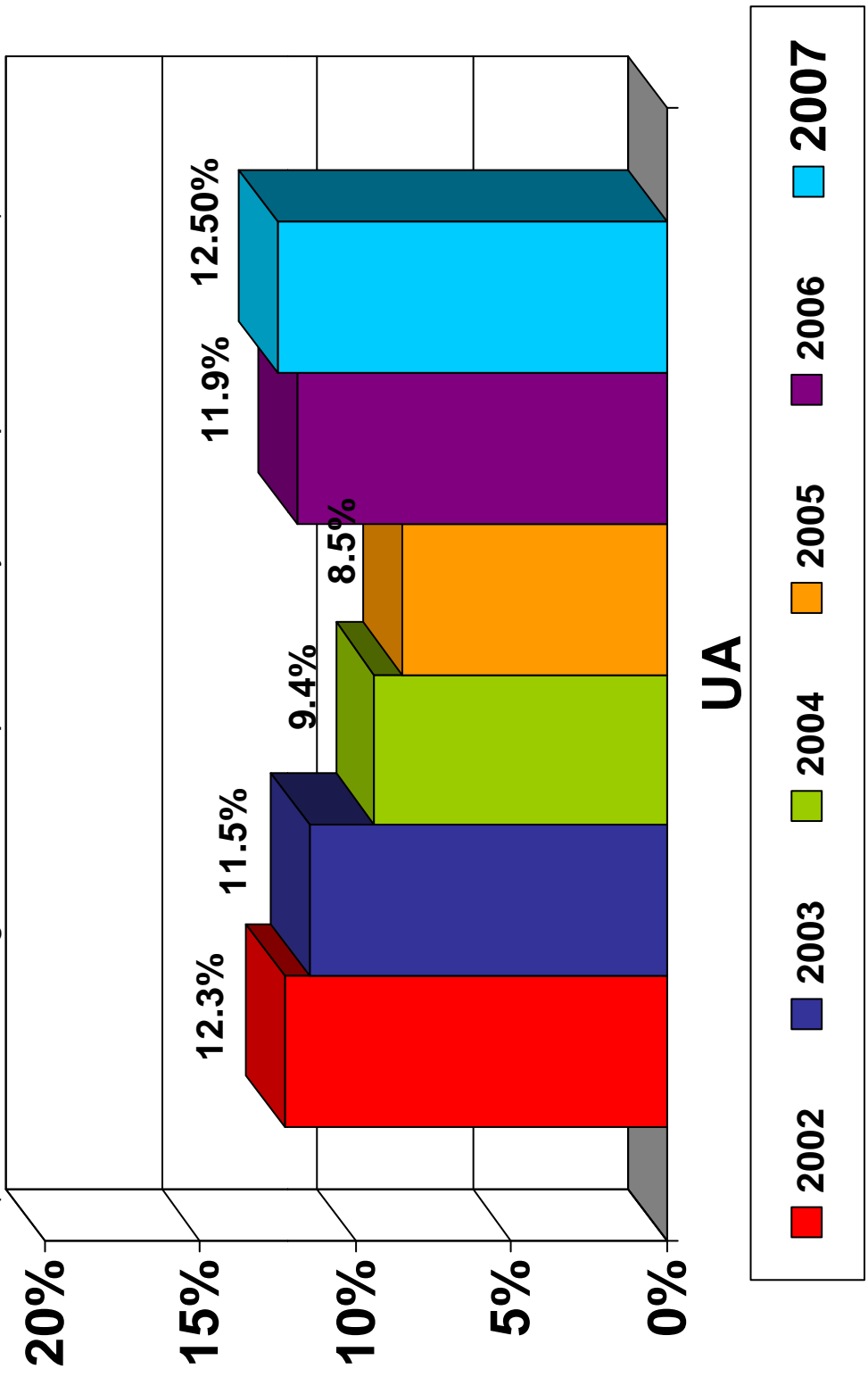
(Measures whether expendable net assets have kept pace with expenses.)



# The University of Arizona Unrestricted Net Assets to Total Expenses (Ratio 8)

Fiscal Years 2002 - 2007

(Measures coverage of annual operations by most liquid resources.)



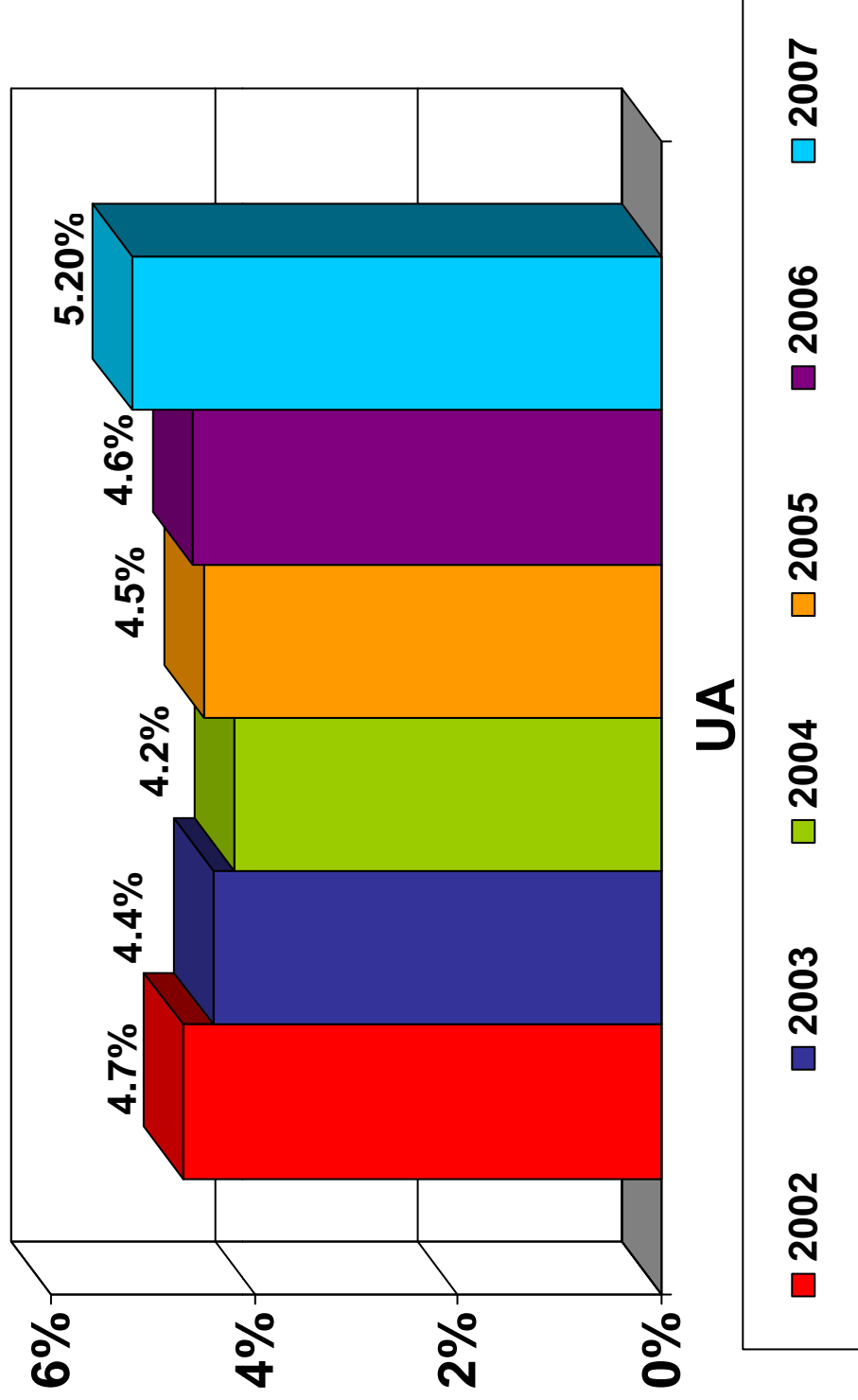
# The University of Arizona

Graph 9

## Debt Service Payments to Total Expenses (Ratio 9)

Fiscal Years 2002 - 2007

(Measures the burden of debt service payments (principal and interest) relative to overall expenses.)



# UA & UA Component Units

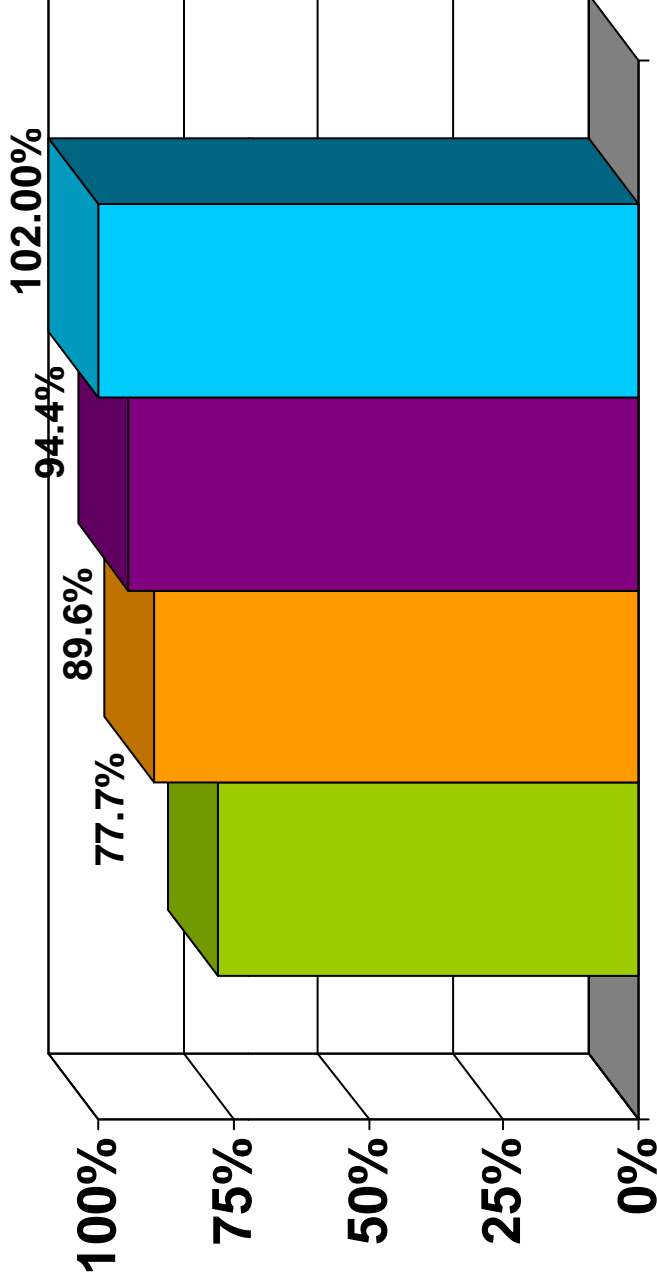
Graph 10

(including UA Foundation)

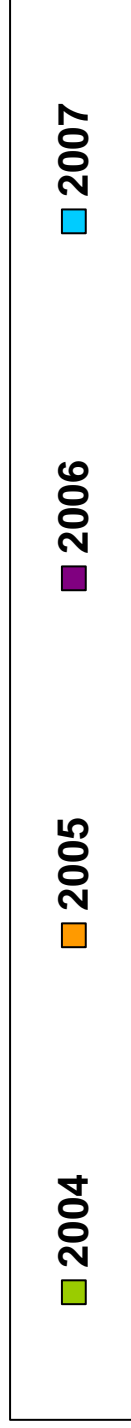
## Total Financial Resources to Direct Debt (Ratio 10)

Fiscal Years 2004 - 2007

(Measures coverage of debt by all available resources.)



## UA & UA Component Units (including UA Foundation)



12/07/2007

Only 2004, 2005, 2006 and 2007 information is available.

UA Financial Services

**Arizona Board of Regents**  
**2020 North Central Avenue, Suite 230**  
**Phoenix, AZ 85004**  
**602-229-2500**  
**[www.azregents.edu](http://www.azregents.edu)**