

**ARIZONA UNIVERSITY SYSTEM**  
**FY 2006 FINANCIAL RATIO ANALYSIS**



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

**December 18, 2006**





Arizona Board of Regents  
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Arizona State University

Northern Arizona University

University of Arizona

## MEMORANDUM

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

**FROM:** Joel Sideman

**DATE:** December 18, 2006

**SUBJECT:** University FY 2006 Financial Reports and Ratio Analysis

We are pleased to distribute for your information the FY 2006 audited Financial Reports for Arizona State University, Northern Arizona University, and The University of Arizona, along with the University System FY 2006 Financial Ratio Analysis. The last of these reports was just released by the Auditor General today. These items will be discussed during the Finance Committee meeting on Thursday, January 11, 2007, noon-1:30 p.m., at the Board's central office, with video-conference sites at Northern Arizona University and The University of Arizona. A separate presentation will be made to the Audit Committee at its next scheduled meeting on January 25, 2007, the first day of the January 25-26 Board meeting.

I think you will join me in expressing our appreciation to the Office of the Auditor General—Dennis Mattheisen, Director, Financial Audit Division—and to our university Controllers—Jerry Snyder, ASU; Bob Norton, NAU; and Mark McGurk, UA—for their hard work to get these reports out two months earlier than last year.

Please contact Kathy Bedard at 602-229-2546 or me at 602-229-2505 if you have questions prior to the meeting.

Enclosures

cc: Michael Crow  
John Haeger  
Robert Shelton

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*Board Members:* **President Robert B. Bulla**, Scottsdale **Fred T. Boice**, Tucson **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:* **Edward Hermes**, ASU **Mary Venezia**, NAU  
*Executive Director:* **Joel Sideman**

## **ARIZONA UNIVERSITY SYSTEM FY 2006 FINANCIAL RATIO ANALYSIS**

- ▶ 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 reporting requirements required with the implementation of GASB 34/35 and 39 in 2002 and 2004, respectively, the universities and central office staff prepared 10 new ratios. At its December 2005 meeting, the Board's Audit Committee approved these ratios and requested the universities to prepare them beginning with FY 2005 financial data, even though implementing the new ratios at that time would result in only four years of comparative data.
- ▶ Therefore, this FY 2006 annual financial ratio analysis uses data from the universities' FY 2006 audited financial statements, together with data from four previous annual reports, covering the period July 1, 2001, through June 30, 2006.
- ▶ An additional year of information will be added to this ratio analysis each year until ten years of information is again provided.
- ▶ Each university has presented 10 ratios over the 5-year period. The ratios serve as indicators of the universities' financial strengths and weaknesses. See pages 4 through 15 for the systemwide ratio analysis and graphs. Ratios are presented by university on pages 16-19. Each university's detailed analysis is presented behind each university's tab.
- ▶ While state General Fund Appropriations as a percentage of Total Revenue declined only slightly—less than 1%—at each university from FY 2005 to FY 2006, a gradual decline has continued in this ratio over the 5-year period FY 2002-FY 2006 (Ratio 1). This trend is expected to continue as the universities compete with other state priorities for General Fund support, forcing the universities to rely on tuition increases, increased research funding, and entrepreneurial activities to compensate.
- ▶ While the FY 2006 General Fund Appropriations systemwide increased \$240 million (9%) over the prior year and has increased \$705 million (34%) during the 5-year period, it continues to decline gradually as a percentage of Total Revenue systemwide.
- ▶ Net Tuition and Fees Revenue as a percentage of Total Revenue (Ratio 2) remained relatively constant with the prior year at all three universities, increasing by less than 1%. The 5-year trend 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 5-year period.

- ▶ FY 2006 systemwide Net Tuition and Fees Revenue increased \$66 million (12%) over the prior year and \$245 million (65%) over the 5-year period.
- ▶ The FY 2006 percentage of Gifts, Grants, Contracts, and TRIF Revenue (Ratio 3) decreased slightly from FY 2005 at ASU (-0.5%), at NAU (-0.9%), and at UA (-2%); Other Revenue (Ratio 4) remained relatively constant at the three universities in FY 2006 but was positively impacted at UA by a \$29 million gain on sale of land.
- ▶ In FY 2006 all three universities covered their current year expenses with current year revenue (Ratio 5), thus avoiding the need to deplete net assets to operate the universities. ASU's and UA's ratios increased, indicating the universities' increasing ability to cover current year expenses with current year revenue.
- ▶ Each university and its component units showed a continuing ability to operate with current year revenue (Ratio 6), with a significant increase—3% up to 9%—in this ratio at ASU over the 3-year period.
- ▶ Both the ability of ASU's *expendable* net assets (those assets available for use for operations) to keep pace with total expenses (Ratio 7) and the ability of its *unrestricted* net assets (those assets that can most quickly be converted to cash) to keep pace with total expenses (Ratio 8) have declined from FY 2005 and over the 5-year period, indicating declining financial strength and declining ability to respond to emergencies or unforeseen needs. UA's ratios improved over the prior year, indicating the university's ability to keep pace with total expenses, and have remained relatively stable over the 5-year period. While NAU's ratios in these two areas have decreased slightly from the prior year, its 5-year trend shows a dramatic upward trend, indicating increasing financial strength.
- ▶ 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.
  - ASU and UA continue to maintain 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.

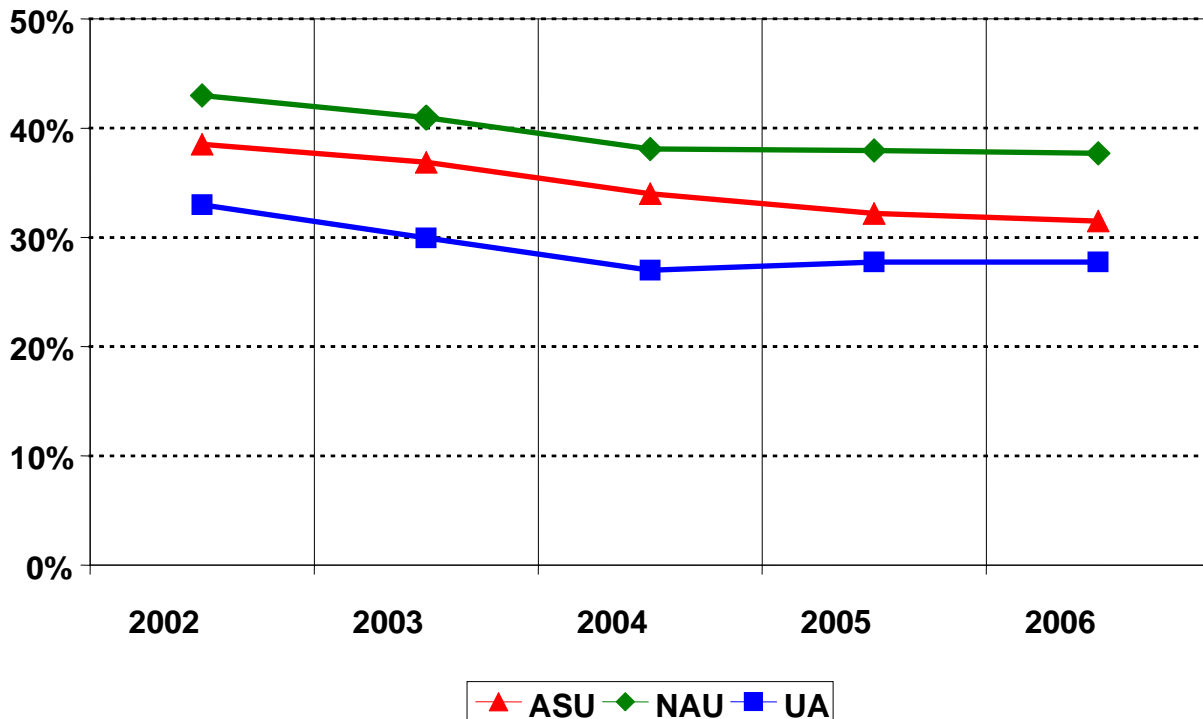
- NAU has maintained an A2 SRB rating and an A3 COPs rating from Moody's; and an A+ SRB rating and an A COPs rating from S&P. The rating outlook for NAU from Moody's remains positive, and the S&P rating is stable.

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

- ▶ Debt ratios (Ratio 9) have remained relatively stable in the 3-6% range over the 5-year period and remain within the 10% range recommended by rating agencies. These ratios are expected to increase significantly at all three universities in FY 2008 as debt service payments begin for newly constructed research facilities.
- ▶ Total financial resources of both the university and its component units as a proportion of the total direct debt of the university and its component units (Ratio 10) has increased over the 5-year period at UA but decreased at both ASU and NAU. A higher percentage indicates more university and component unit resources to cover the total debt of the university and component units. At June 30, 2006, UA had sufficient financial resources to pay 94% of its total debt; ASU and NAU each had sufficient resources to pay 39% of its total debt.
- ▶ Arizona State University's component units used in Ratios 6 and 10, as defined by GASB 14 and GASB 39, are:
  - 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's component units are:
  - Northern Arizona University Foundation, Inc.
  - Northern Arizona Capital Facilities Finance Corporation (NACFFC)
- ▶ The University of Arizona's component units are:
  - The University of Arizona Foundation, Inc.
  - The University of Arizona Alumni Association
  - Law College Association of The University of Arizona
  - Campus Research Corporation

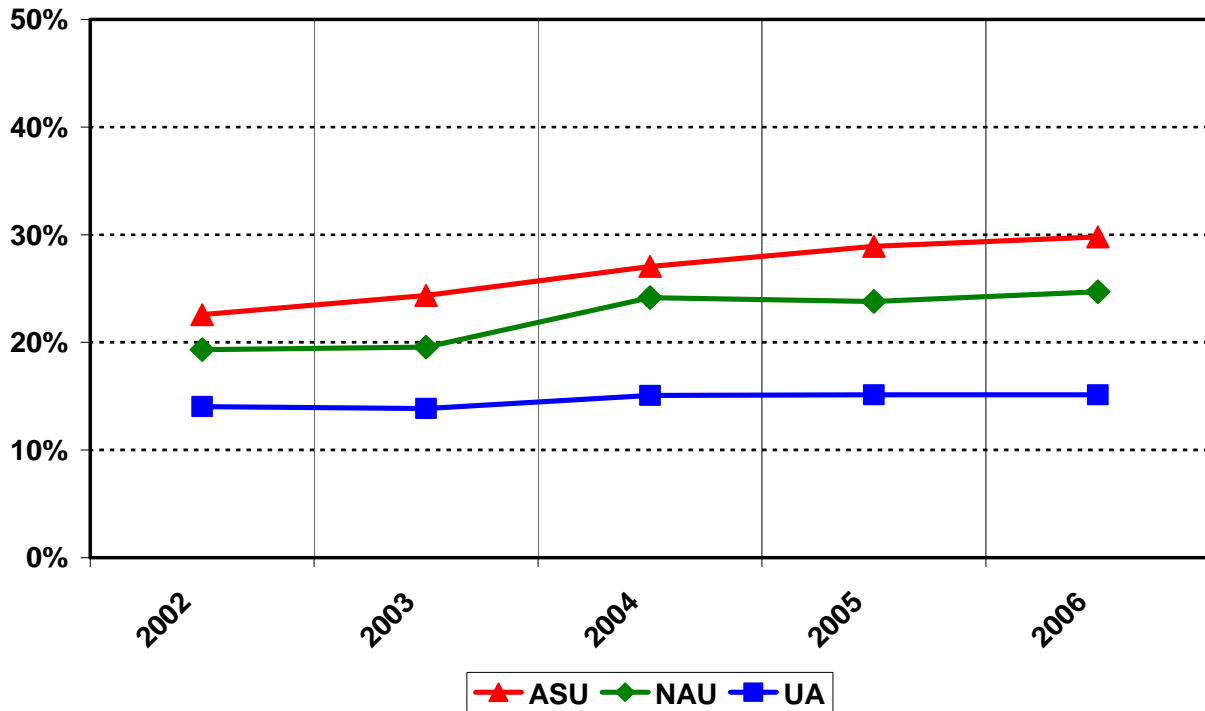
Ratio 1	Description of Ratio						
<p data-bbox="186 268 391 401">State General Fund Appropriations Total Revenue</p> <p data-bbox="170 436 407 470"><b>FY 2006 RATIOS</b></p> <table data-bbox="159 512 415 579"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>32%</td> <td>38%</td> <td>28%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	32%	38%	28%	<p data-bbox="443 264 1468 432"><i>Element definition:</i> State General Fund Appropriations 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. Total Revenue includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="443 468 1468 800">State General Fund Appropriations as a percentage of Total Revenue declined only slightly—less than 1%—at all three universities from FY 2005 to FY 2006. During the 5-year period covered by this analysis, FY 2002-FY 2006, this ratio declined at ASU from 39% to 32%; at NAU from 42% to 38%; and at UA from 33% to 28%. While the FY 2006 General Fund Appropriation systemwide increased \$240 million (9%) over the prior year, and has increased \$705 million (34%) over FY 2002, it continues to decline as a percentage of Total Revenues systemwide. The universities continue to implement strategies to enhance revenues from all other sources (see Ratios 2, 3, and 4).</p> <p data-bbox="443 835 1468 993">A declining trend in this ratio reflects a continuing shift in responsibility for funding the universities, with decreasing support from the state General Fund and increasing dependence on other sources including tuition, government (primarily federal) and private research grants, private gifts, and entrepreneurial efforts.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
32%	38%	28%					

### 1. Ratio of State General Fund Appropriations to Total Revenue



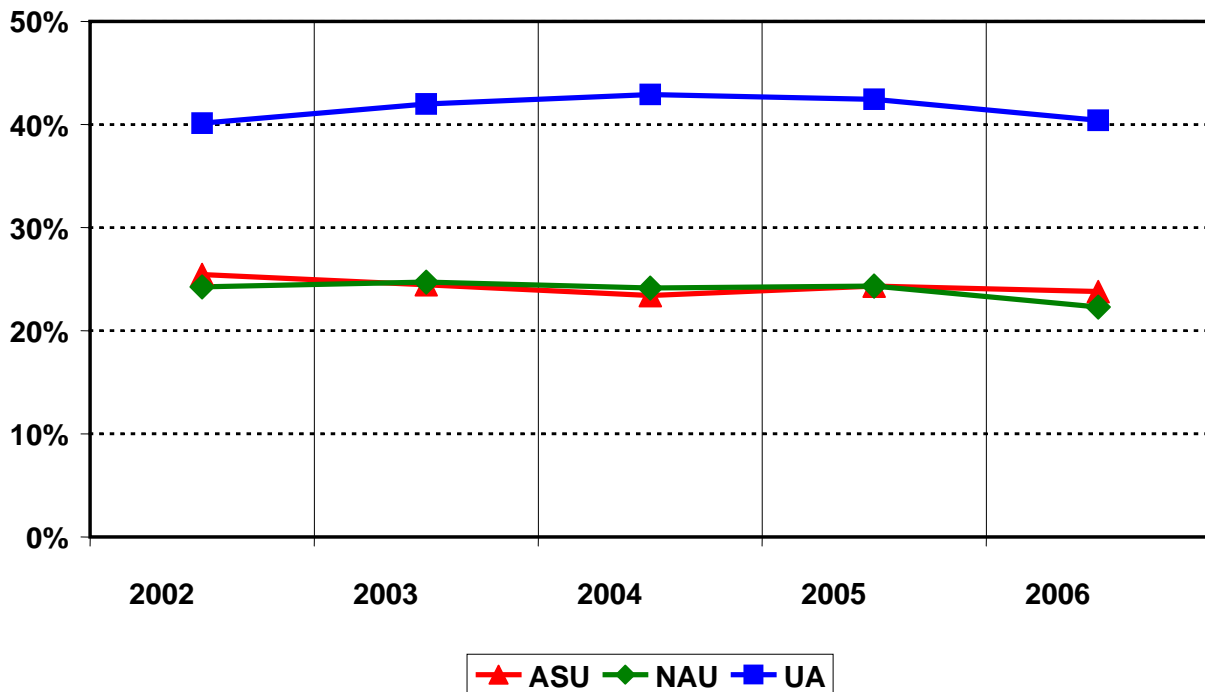
Ratio 2	Description of Ratio
<p data-bbox="159 275 412 331"><u>Net Tuition &amp; Fees</u> Total Revenue</p> <p data-bbox="172 373 399 405"><u>FY 2006 RATIOS</u></p> <p data-bbox="159 470 412 527"><u>ASU</u>   <u>NAU</u>   <u>UA</u> 30%   25%   15%</p>	<p data-bbox="444 275 1466 369"><i>Element definition: 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="444 411 1466 636">FY 2006 Net Tuition and Fees increased \$66 million (12%) over FY 2005. However, as a percentage of Total Revenue, Net Tuition and Fees at all three universities remained relatively constant in FY 2006 compared to the prior year. The 5-year trend 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 on Net Tuition and Fees has remained in the 14-15% range.</p> <p data-bbox="444 678 1466 804">Increases in this ratio reflect the increasing reliance on, and the upward pressure on, student tuition and fees as a revenue source to operate the universities and to service the debt on capital construction, especially at ASU and NAU.</p>

2. Ratio of Net Tuition and Fees Revenue to Total Revenue



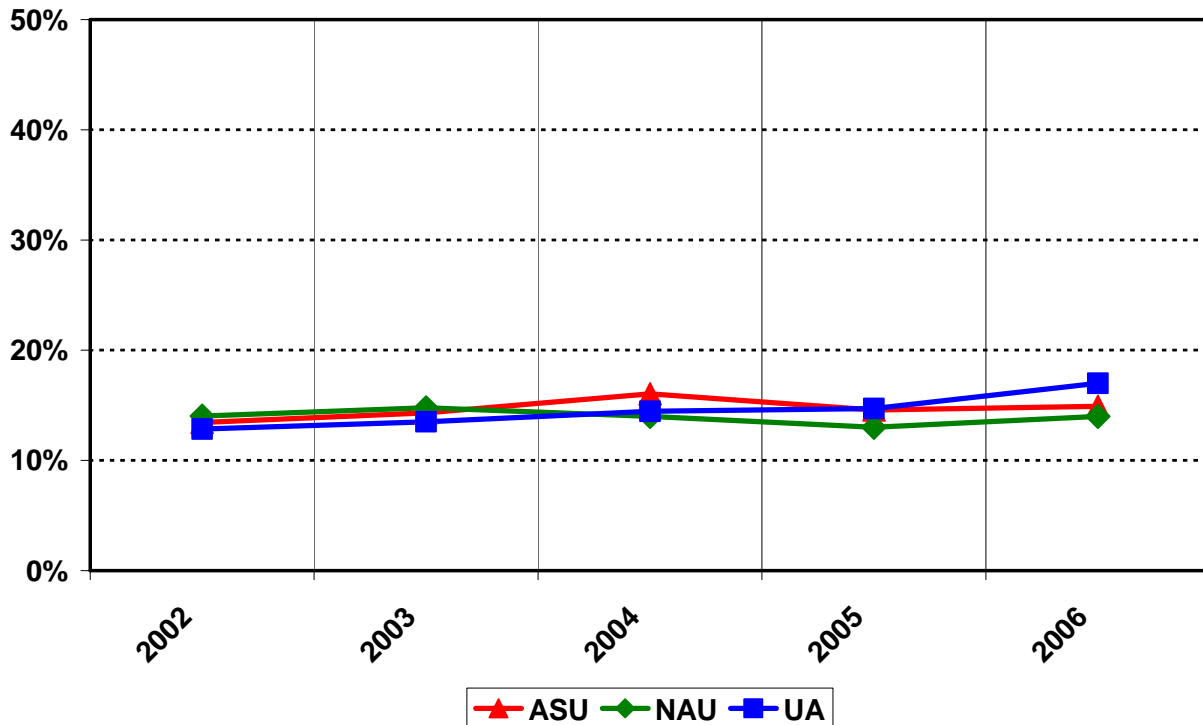
Ratio 3	Description of Ratio
<p data-bbox="164 275 407 401">Gifts, Grants, Contracts, &amp; TRIF Revenue Total Revenue</p> <p data-bbox="172 443 399 474"><b>FY 2006 RATIOS</b></p> <p data-bbox="159 516 412 579"><u>ASU</u>   <u>NAU</u>   <u>UA</u> 24%   22%   40%</p>	<p data-bbox="443 275 1468 474"><i>Element definition:</i> Gifts, Grants, and Contracts come from private donors, additions to endowments, and government (primarily federal) and private research grants and contracts. TRIF Revenue is ABOR's share of state sales tax revenue approved under Proposition 301 (November 2000). Total Revenue includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="443 506 1468 674">Total gifts, grants, and contracts and TRIF revenue as a percentage of Total Revenues decreased slightly at ASU (-0.5%), at NAU (-2.1%), and at UA (-2%) in FY 2006 from the prior year. Over the 5-year period, this percentage has decreased from 26% to 24% at ASU and from 24% to 22% at NAU; and increased from just under 40% to just over 40% at UA.</p> <p data-bbox="443 705 1468 873">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 ramps up in FY 2007 and FY 2008 in the universities' new research infrastructure buildings funded by HB 2529, more federal and other research grants and contracts should generate increased funding, and this ratio is likely to increase.</p>

**3. Ratio of Gifts, Grants, Contracts, and TRIF Revenue to Total Revenue**

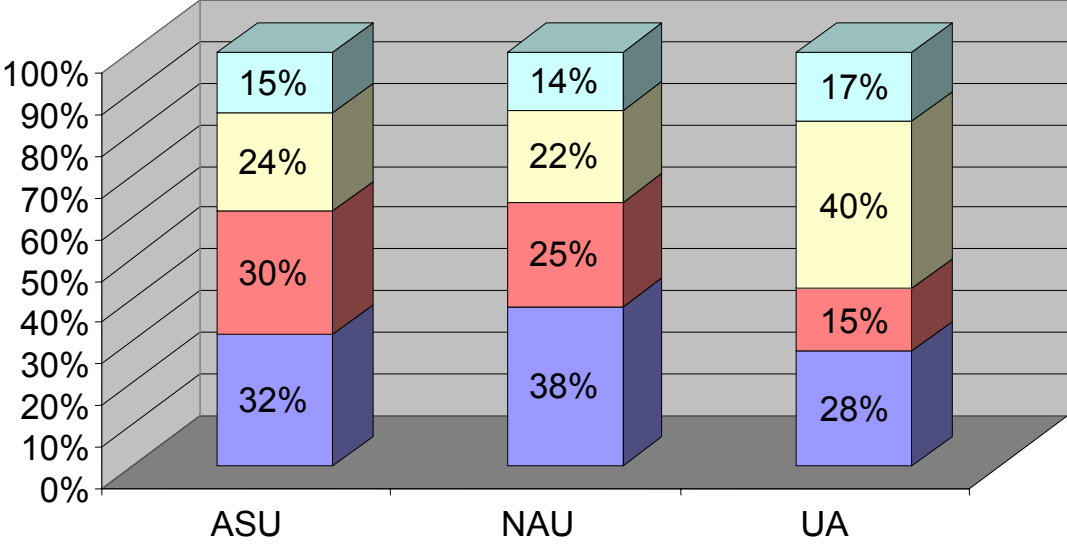


Ratio 4	Description of Ratio
<p data-bbox="183 275 389 338"><u>Other Revenue</u> <u>Total Revenue</u></p> <p data-bbox="172 373 401 405"><u>FY 2006 RATIOS</u></p> <p data-bbox="159 447 414 510"><u>ASU</u> 15%   <u>NAU</u> 14%   <u>UA</u> 17%</p>	<p data-bbox="443 275 1471 405"><i>Element definition:</i> <b>Other Revenue</b> 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. <b>Total Revenue</b> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="443 443 1471 674">Other Revenue as a percentage of Total Revenue in FY 2006 increased slightly at ASU and NAU and increased more significantly at UA. Over the 5-year period, this ratio has remained relatively stable at all three universities. In any given year, this ratio can be impacted by land sales, as is the case in FY 2006 when UA reported a \$29 million land sale. Considering this relatively stable ratio in conjunction with Ratios 1, 2, and 3 helps to explain the upward pressure on tuition rates.</p> <p data-bbox="443 709 1471 840">ASU's FY 2002 ratio of 13% increased to 15% in FY 2006. NAU's FY 2002 ratio of 14% was the same ratio reported in FY 2006. UA's FY 2002 ratio of 13% increased to 17% in FY 2006, largely due to a \$29 million gain on sale of land in FY 2006.</p>

**4. Ratio of Other Revenue to Total Revenue**



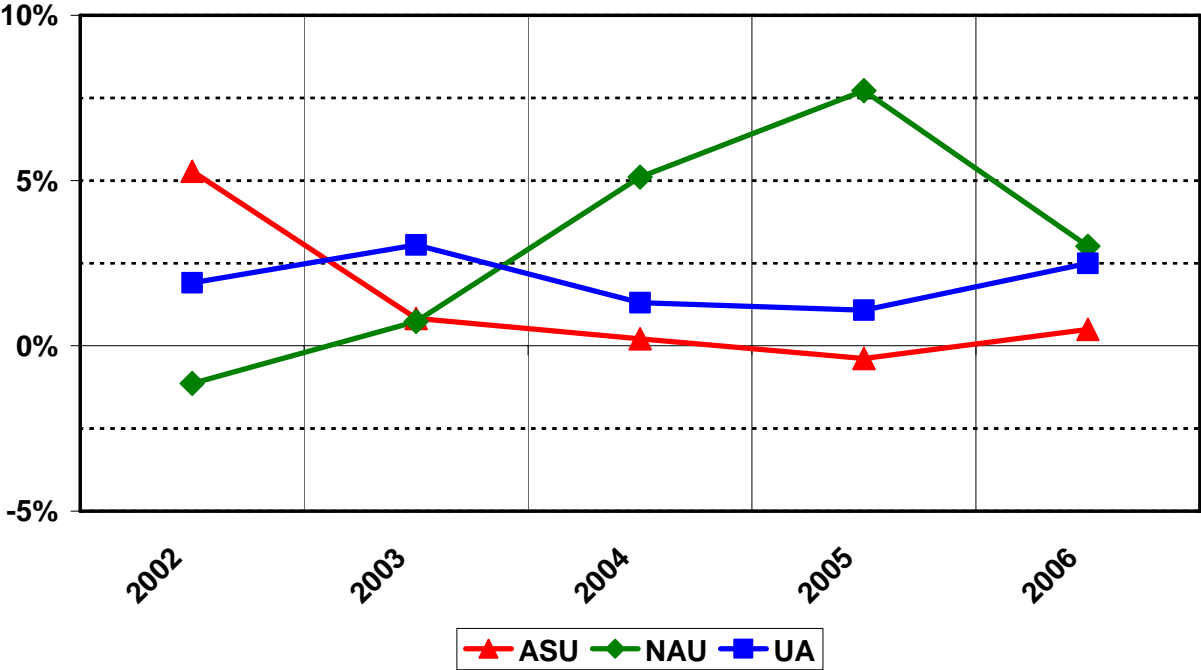
### Composition of University Total Revenue Ratios 1, 2, 3, and 4 Combined



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

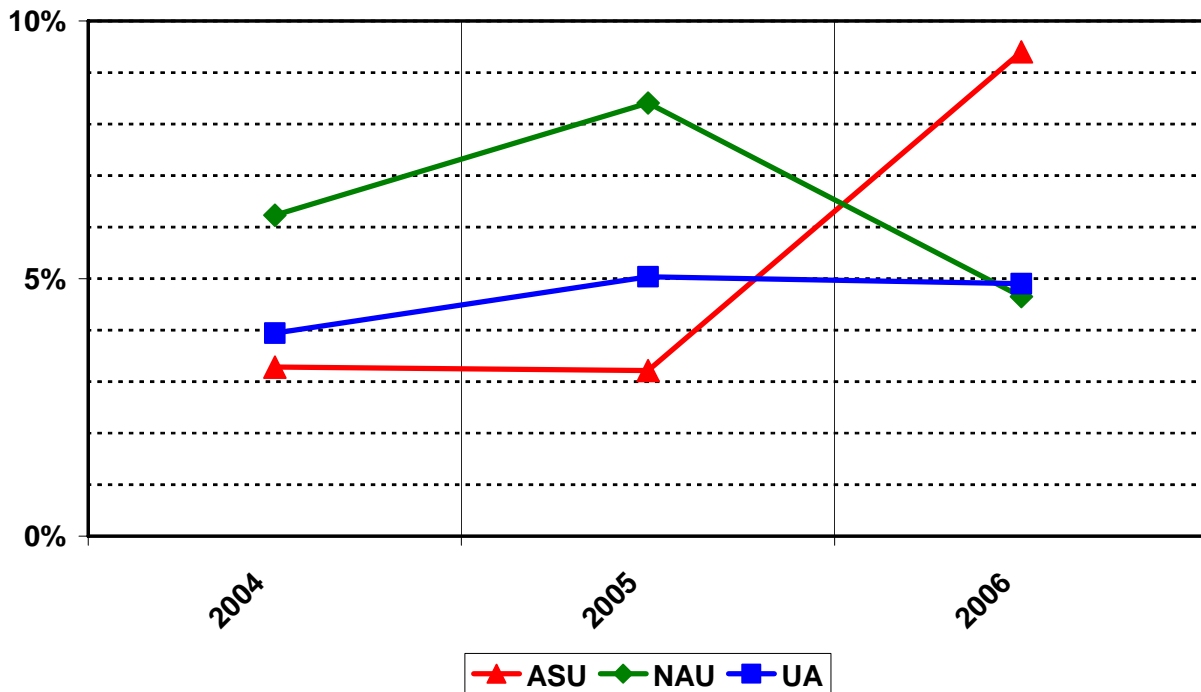
Ratio 5	Description of Ratio						
<p data-bbox="167 275 406 405"><b>Net Revenue (University Only) Total Revenue (University Only)</b></p> <p data-bbox="167 443 406 474"><b>FY 2006 RATIOS</b></p> <table data-bbox="155 516 406 579"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>0.5%</td> <td>3%</td> <td>3%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	0.5%	3%	3%	<p data-bbox="440 275 1471 405"><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="440 443 1471 537"><b>This ratio indicates whether or not 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="440 575 1471 907">ASU's FY 2006 ratio increased to 0.5% from a 5-year low of -0.4% in FY 2005, indicating that the university operated with current year revenues and finished the year with a \$6 million excess of Total Revenue (\$1.172 billion) over Total Expenses (\$1.166 billion). NAU finished FY 2006 with a \$10 million excess of Total Revenue (\$332 million) over Total Expenses (\$321 million). While NAU's ratio decreased from the prior year, the university continued to operate with current year revenue. UA's ratio increased from 1% in FY 2005 to 3% in FY 2006, with the university finishing the year with a \$32 million excess of Total Revenue (\$1.295 billion) over Total Expenses (\$1,262), indicating its increasing ability to cover current year expenses with current year revenue.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
0.5%	3%	3%					

**5. Ratio of Net Revenue (University Only) to Total Revenue (University Only)**



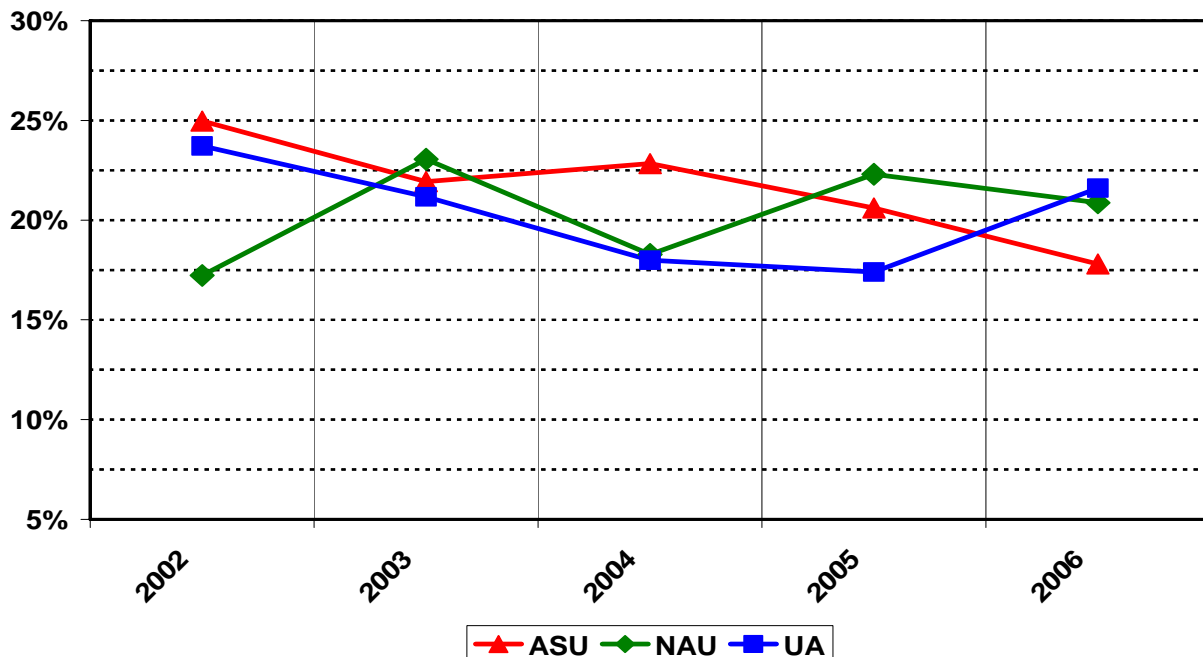
Ratio 6	Description of Ratio						
<p data-bbox="159 268 412 470"><b>Net Revenue (University + Component Units)</b> <b>Total Revenue (University + Component Units)</b></p> <p data-bbox="168 506 402 537"><b><u>FY 2006 RATIOS</u></b></p> <table data-bbox="159 579 412 642"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>9%</td> <td>5%</td> <td>5%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	9%	5%	5%	<p data-bbox="444 268 1468 436"><b>Element definition:</b> <i>Net Revenue</i> equals total revenue less total expenses. <i>Total Revenue</i> 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 (see note below).</p> <p data-bbox="444 470 1468 701">This ratio indicates whether or not 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. All three universities and their component units met current year expenses with current year revenue in FY 2006.</p> <p data-bbox="444 735 1468 1003">ASU's ratio over the 3-year reporting period for this university and component units ratio indicates an increasing ability of the university and its component units to operate with current year revenue. NAU's ratio over the 3-year period has fluctuated from 6% in FY 2004 to 8% in FY 2005 to 5% in FY 2006 but indicates a continuing ability of the university and its components units to operate with current year revenue. UA's ratio over the 3-year period has remained in the 4-5% range, indicating a continuing ability to operate the university and its component units with current year revenue.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
9%	5%	5%					

**6. Ratio of Net Revenue (University + Component Units) to Total Revenue (University + Component Units)**



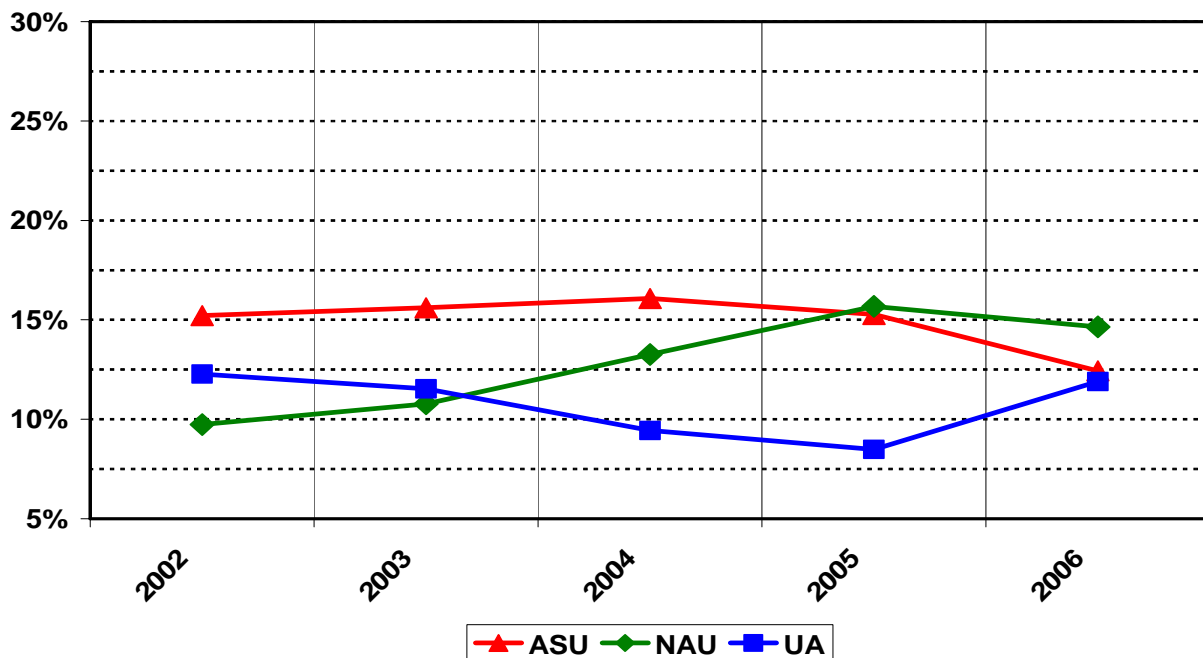
Ratio 7	Description of Ratio						
<p data-bbox="175 268 396 369">Expendable Net Assets Total Expenses</p> <p data-bbox="168 405 402 436"><b>FY 2006 RATIOS</b></p> <table data-bbox="159 478 412 546"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>18%</td> <td>21%</td> <td>22%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	18%	21%	22%	<p data-bbox="441 260 1469 428"><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="441 453 1469 583">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="441 609 1469 877">ASU's ratio decreased from 21% in FY 2005 to 18% in FY 2006, indicating that expendable net assets have not kept pace with total current year expenses and that a declining level of resources is available at year-end to operate the university. ASU's ratio has declined over the 5-year period from a high of 24% in FY 2002 to a current-year low. NAU's ratio decreased slightly from 22% in FY 2005 to 21% in FY 2006. UA's ratio increased from 17% in FY 2005 to 22% in FY 2006 indicating that expendable net assets have kept pace with total current year expenses.</p> <p data-bbox="441 903 1469 1003">Explained differently, at June 30, 2006, ASU had approximately 9 weeks of annual spending available from year-end expendable net assets. NAU and UA each had approximately 11 weeks of annual spending available at year-end.</p> <p data-bbox="441 1029 1469 1129">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2006, 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%	21%	22%					

**7. Ratio of Expendable Net Assets to Total Expenses**



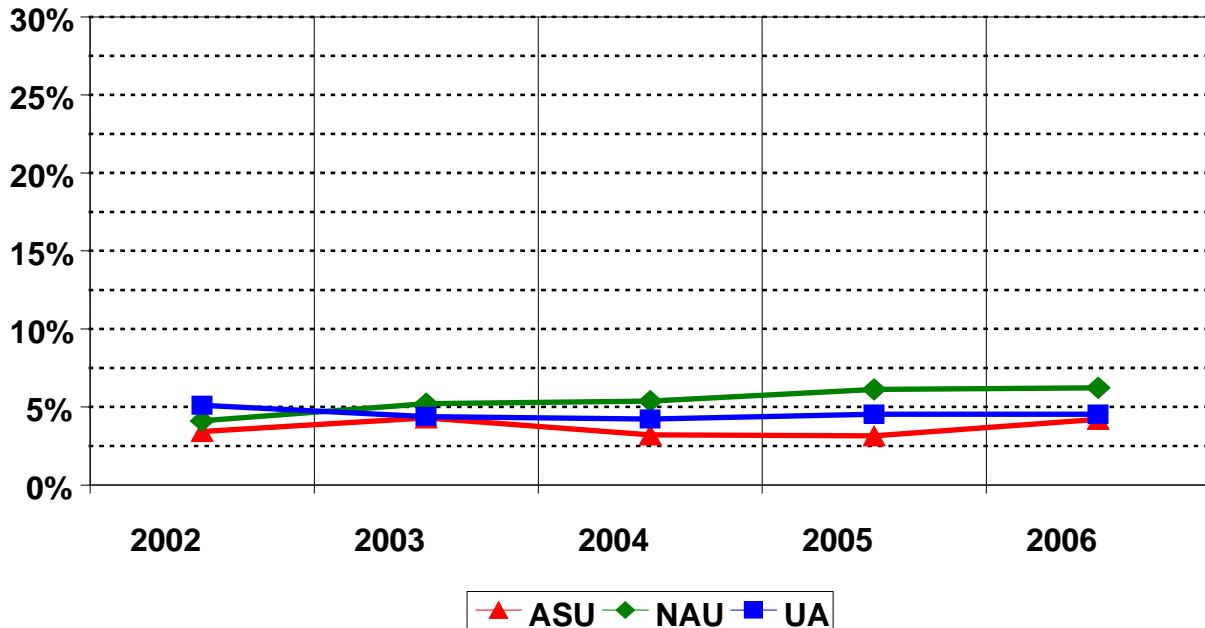
Ratio 8	Description of Ratio						
<p data-bbox="175 275 402 369"><b>Unrestricted Net Assets</b> <b>Total Expenses</b></p> <p data-bbox="175 407 402 436"><b>FY 2006 RATIOS</b></p> <table data-bbox="159 478 412 541"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>12%</td> <td>15%</td> <td>12%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	12%	15%	12%	<p data-bbox="444 275 1471 401"><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="444 436 1471 569">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="444 604 1471 800">ASU's ratio of remained in the 15-17% range during FY 2002 through FY 2005, but dipped to 12% in FY 2006 indicating reduced operating flexibility of the university when compared to the prior 4 years. NAU's FY 2002 ratio of 10% increased to 15% in FY 2006, indicating increasing operating flexibility. UA's FY 2002 ratio of 12% declined to 9% in FY 2005 but rebounded to 12% in FY 2006, indicating increasing operating flexibility.</p> <p data-bbox="444 835 1471 1003">Explained differently, at June 30, 2006, ASU had approximately 6 weeks of spending coverage, down from 8 weeks of coverage at June 30, 2005. NAU had approximately 8 weeks of spending coverage at June 30, 2006, relatively unchanged from the prior year. UA had approximately 6 weeks of spending coverage at June 30, 2006, up from 4 weeks of coverage at June 30, 2005.</p> <p data-bbox="444 1039 1471 1131">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2006, 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%	15%	12%					

**8. Ratio of Unrestricted Net Assets to Total Expenses**



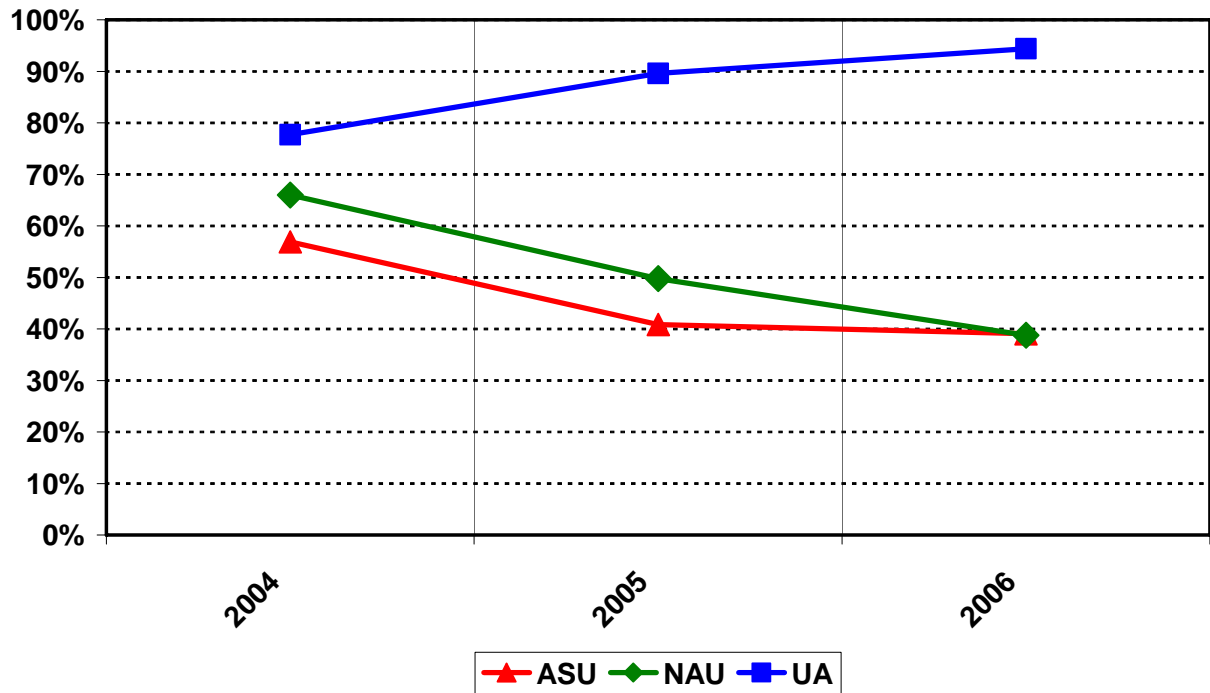
Ratio 9	Description of Ratio						
<p data-bbox="191 275 380 436"><b>Debt Service Payments (Interest + Principal) Total Expenses</b></p> <p data-bbox="172 474 399 506"><b><u>FY 2006 RATIOS</u></b></p> <table data-bbox="159 548 412 611"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>4%</td> <td>6%</td> <td>5%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	4%	6%	5%	<p data-bbox="443 275 1468 405"><i>Element definition: Debt Service Payments include the interest and principal payments for the university's System Revenue Bonds (SRBs) and Certificates of Participation (COPs). Total Expenses include operating, nonoperating, and other expenses and losses.</i></p> <p data-bbox="443 436 1468 701">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. All three universities are within the acceptable range and demonstrate that they have adequate resources to meet existing debt requirements.</p> <p data-bbox="443 737 1468 1062">ASU's FY 2006 debt ratio of 4% increased slightly over a 3% ratio in FY 2005 but has remained in the 3-4% range over the 5-year period. ASU anticipates a more significant increase in this ratio in FY 2008 when debt service payments begin for newly constructed research facilities. NAU's FY 2006 ratio of 6% remains relatively unchanged from the prior year and remained in the 4-6% range over the 5-year period. NAU also anticipates a more significant increase in this ratio in FY 2008 for the same reason as ASU. UA's FY 2006 ratio of 5% remained unchanged from the prior year and remains in the 4-5% range over the 5-year period. As with ASU and NAU, UA anticipates an increase in this ratio in FY 2008.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
4%	6%	5%					

**9. Ratio of Debt Service Payment (Interest + Principal) to Total Expenses**



Ratio 10	Description of Ratio						
<p data-bbox="159 268 412 401"><b>Total Financial Resources (University + Component Units)</b></p> <p data-bbox="159 405 412 506"><b>Direct Debt (University + Component Units)</b></p> <p data-bbox="168 537 402 573"><b><u>FY 2006 RATIOS</u></b></p> <table data-bbox="159 611 412 678"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>39%</td> <td>39%</td> <td>94%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	39%	39%	94%	<p data-bbox="444 268 1468 537"><b><i>Element definition:</i> Total Financial Resources 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. Direct Debt 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.</b></p> <p data-bbox="444 573 1468 705"><b>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.</b></p> <p data-bbox="444 741 1468 1073">ASU's ratio has declined over the 3-year period for component units reporting, declining from 57% in FY 2004 to 41% in FY 2005 to 39% in FY 2006, indicating fewer resources of the university and its component units to cover total university and component unit debt. NAU's FY 2004 ratio of 66% declined to 50% in FY 2005 and to 39% in FY 2006, also indicating a decline in total resources of the university and its component units to cover total university and component unit debt. UA's FY 2004 ratio of 78% improved to 90% in FY 2005 and to 94% in FY 2006, indicating the increasing availability of university and component unit resources to pay total university and component unit debt.</p> <p data-bbox="444 1108 1468 1409">Explained differently, at June 30, 2006, ASU had sufficient financial resources to pay 39% of the total debt of the university and component units, down from 57% at June 30, 2004. NAU, at June 30, 2006, had sufficient financial resources to pay 39% of the total debt of the university and component units, down from 66% at June 30, 2004. UA, at June 30, 2006, had sufficient financial resources to pay 94% 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="444 1444 1468 1566">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2006, only. The universities are "going concerns" and, therefore, payment of the total direct debt is not required as of June 30, 2006, but will be paid off over time.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
39%	39%	94%					

10. Ratio of Total Financial Resources (University + Component Units)  
to Direct Debt (University + Component Units)



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 2006**  
(dollars in millions)

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

**NORTHERN ARIZONA UNIVERSITY**  
**Financial Ratios for Fiscal Years 2002 to 2006**  
(dollars in millions)

Ratio	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1 <u>State General Fund Appropriations</u>	112	111	112	118	125
Total Revenues	264	271	294	311	332
NAU only	42.4%	41.0%	38.1%	37.9%	37.7%
2 <u>Net Tuition and Fees Revenue</u>	51	53	71	74	82
Total Revenues	264	271	294	311	332
NAU only	19.3%	19.6%	24.1%	23.8%	24.7%
3 <u>Gifts, Grants &amp; Contracts, and TRIF Revenue</u>	64	67	71	76	74
Total Revenues	264	271	294	311	332
NAU only	24.2%	24.8%	24.1%	24.4%	22.3%
TRIF - Technology & initiative research funding. NAU's share of the state education sales tax.					
4 <u>Other Revenues</u>	37	40	40	40	46
Total Revenues	264	271	294	311	332
NAU only	14.0%	14.8%	13.6%	12.9%	13.9%
5 <u>Net Revenues</u>	(3)	2	15	24	10
Total Revenues	264	271	294	311	332
NAU only	-1.1%	0.7%	5.1%	7.7%	3.0%
6 <u>Net Revenues</u>			19	28	16
Total Revenues			305	333	344
NAU and component units			6.2%	8.4%	4.7%
7 <u>Expendable Net Assets</u>	46	62	52	64	67
Total Expenses	267	269	279	287	321
NAU only	17.2%	23.0%	18.6%	22.3%	20.9%
8 <u>Unrestricted net assets</u>	26	29	37	45	47
Total expenses	267	269	279	287	321
NAU only	9.7%	10.8%	13.3%	15.7%	14.6%
9 <u>Debt Service Payments (int &amp; princ)</u>	11	14	15	18	20
Total Expenses	267	269	279	287	321
NAU only	4.1%	5.2%	5.4%	6.3%	6.2%
10 <u>Total financial resources , net</u>			95	108	107
Direct debt			144	217	276
NAU and component units			66.0%	49.8%	38.8%

**THE UNIVERSITY OF ARIZONA**  
**Financial Ratios for Fiscal Years: 2002 to 2006**  
(dollars in millions)

Ratio	2002	2003	2004	2005	2006
1 <u>State General Fund Appropriations</u>	329	324	317	334	358
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	33.0%	29.9%	27.6%	27.7%	27.6%
2 <u>Net Tuition and Fees Revenue</u>	140	150	173	182	193
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	14.0%	13.9%	15.1%	15.1%	14.9%
3 <u>Gifts, Grants &amp; Contracts, and TRIF Revenue</u>	396	463	493	511	523
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	39.7%	42.8%	42.9%	42.4%	40.4%
TRIF - Technology & initiative research funding. UA's share of the state education sales tax.					
4 <u>Other Revenues</u>	127	146	166	177	221
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	12.7%	13.5%	14.4%	14.7%	17.1%
5 <u>Net Revenues</u>	19	34	15	13	32
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	1.9%	3.1%	1.3%	1.1%	2.5%
6 <u>Net Revenues</u>			49	66	63
Total Revenues			1,244	1,311	1,295
UA and component units			3.9%	5.0%	4.9%
7 <u>Expendable Net Assets</u>	232	222	204	207	272
Total Expenses	978	1,049	1,134	1,190	1,262
UA only	23.7%	21.2%	18.0%	17.4%	21.6%
8 <u>Unrestricted net assets</u>	120	121	107	101	150
Total expenses	978	1,049	1,134	1,190	1,262
UA only	12.3%	11.5%	9.4%	8.5%	11.9%
9 <u>Debt Service Payments (int &amp; princ)</u>	46	46	48	54	58
Total Expenses	978	1,049	1,134	1,190	1,262
UA only	4.7%	4.4%	4.2%	4.5%	4.6%
10 <u>Total financial resources , net</u>			628	707	806
Direct debt			808	789	854
UA and component units			77.7%	89.6%	94.4%

**ARIZONA STATE UNIVERSITY**  
**Financial Ratios for Fiscal Years: 2002 to 2006**  
(dollars in millions)

Ratio	2002	2003	2004	2005	2006
1 <u>State General Fund Appropriations</u>	321	312	313	336	369
Total Revenues	833	846	935	1,044	1,172
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Total Revenues	833	846	935	1,044	1,172
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TRIF - Technology & initiative research funding. ASU's share of the state education sales tax.					
4 <u>Other Revenues</u>	112	121	150	152	175
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Total Expenses	789	839	933	1,048	1,166
ASU only	3.4%	4.3%	3.1%	3.1%	4.2%
10 <u>Total financial resources , net</u>			444	444	478
Direct debt			784	1,087	1,224
ASU and component units			56.6%	40.8%	39.1%

## ARIZONA STATE UNIVERSITY

### FINANCIAL STATEMENTS ANALYSIS – FISCAL 2006

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, 2006. 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 five 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 three 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 2006? (Ratios 1 – 4)

Graph A shows the overall ASU revenue trends over the last five 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. If the trend continues at its current rate, it is expected general fund appropriations will constitute less than 30% of ASU's total funding sources in fiscal 2008. During the five year period reported, the percentage of general fund appropriations revenues to total revenues has declined from 38.5% in fiscal 2002 to 31.5% in fiscal 2006. State appropriations dollars have increased by \$57 million, or a percentage increase of 18% during this period, from \$312 million in fiscal 2003 to \$369 million in fiscal 2006.

- 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 29.8% in fiscal 2006, with increases occurring in each of the five years being reported. 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 \$161 million during this period, from \$188 million in fiscal 2002 to \$349 million in fiscal 2006 resulting in a percentage increase of 86% during the five 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 five year reporting period from a high of 25.5% in fiscal 2002 to a low of 23.4% in fiscal 2004. The fiscal 2006 percentage was 23.8%. Total gifts, grants, contracts, and TRIF dollars increased during this period by \$67 million from \$212 million in fiscal 2002 to \$279 million in fiscal 2006. This was a 32% 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 the grants and contracts revenue source to increase significantly 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 remained steady for the time period reported with an overall fluctuation of 2.6% between the low of 13.4% in fiscal 2002 to a high of 16.0% in fiscal 2004. 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 dollar totals, auxiliary enterprises revenues have increased from \$86 million in fiscal 2002 to \$107 million in fiscal 2006, a 24% 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 \$37 million, essentially doubling during five year reporting period. The increase in sales and services revenues is a reflection of steps taken by many departments to increase their revenue base.

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

Over the five 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 31% in fiscal 2006. 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 30% in fiscal 2006. Total University revenues have increased from \$833 million in fiscal 2002 to \$1,172 million in fiscal 2006, a 41% 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 grants and contracts activity, the result of the emphasis recently being placed on improving the University's research infrastructure, and the opening of four research buildings in fiscal 2006.

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.

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 three 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 five years ranges between 23.6% in fiscal year 2002 to 17.8% in fiscal year 2006, with an average of 21.3%. 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 17.8% 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 2006, 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 2006 debt service ratio for ASU was 4.2%, 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 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 three year period reported, the fiscal 2006 ratio of 39.1% still 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 each of the five 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. 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 \$339 million between fiscal 2002 and fiscal 2006, its net revenues for the last four years have been no greater than \$7 million, less than one percent of total revenues. 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 have the capacity for future additional debt financings. ASU anticipates issuing approximately \$80 million in new debt during fiscal 2007. This does not include any debt to be issued by the University's component units during fiscal 2007.

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. ASU's financial position has remained essentially the same during the last five year, having neither significantly worsened nor improved. ASU 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.



# Financial Graphs

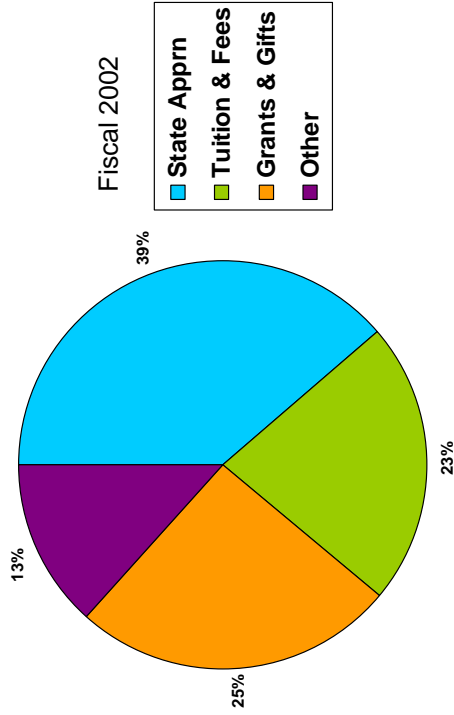
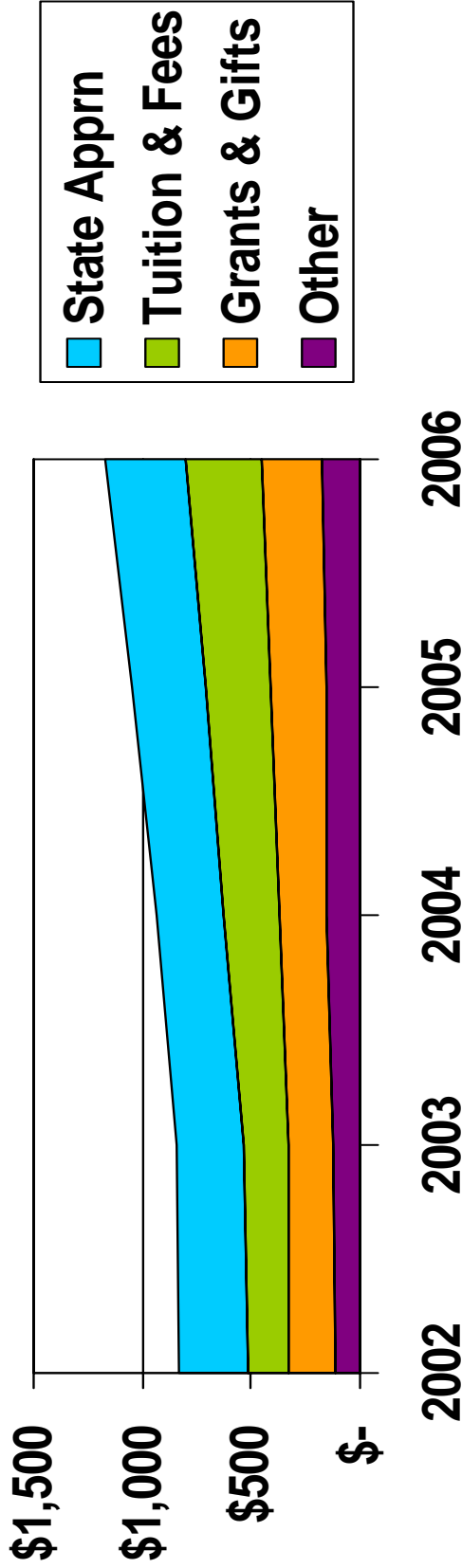
(Based on Financial Ratios Presented to the  
Arizona Board of Regents)

Fiscal Years 2002 - 2006

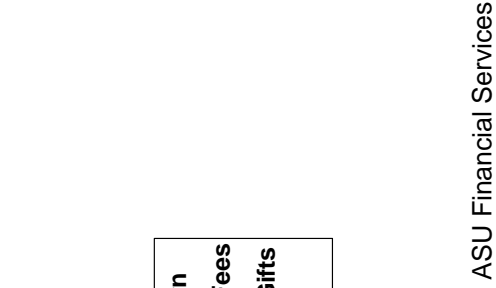
# ASU REVENUE TRENDS

Graph A

(Dollars in Millions)



Fiscal 2002

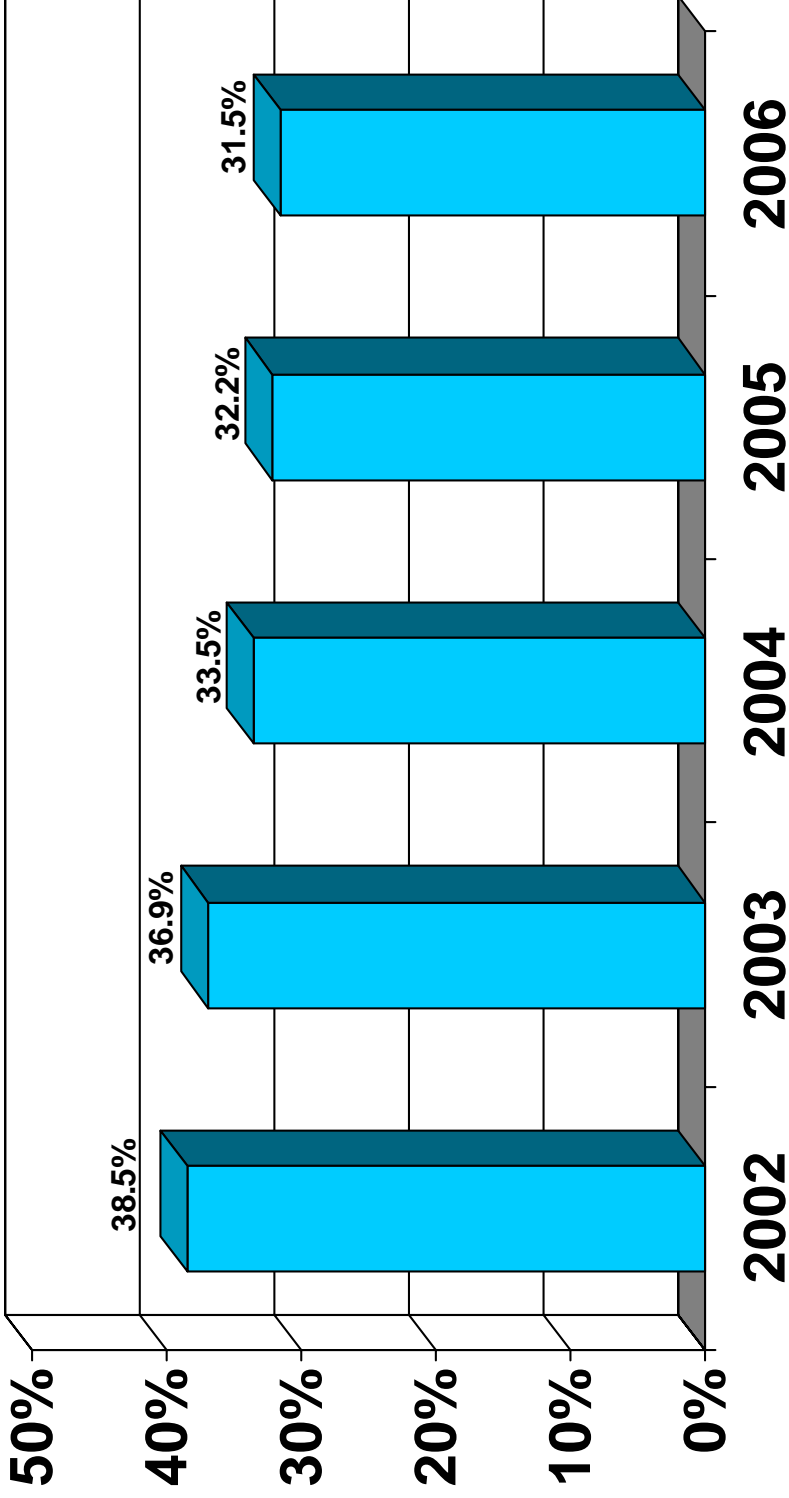


Fiscal 2006

ASU Financial Services

# ASU

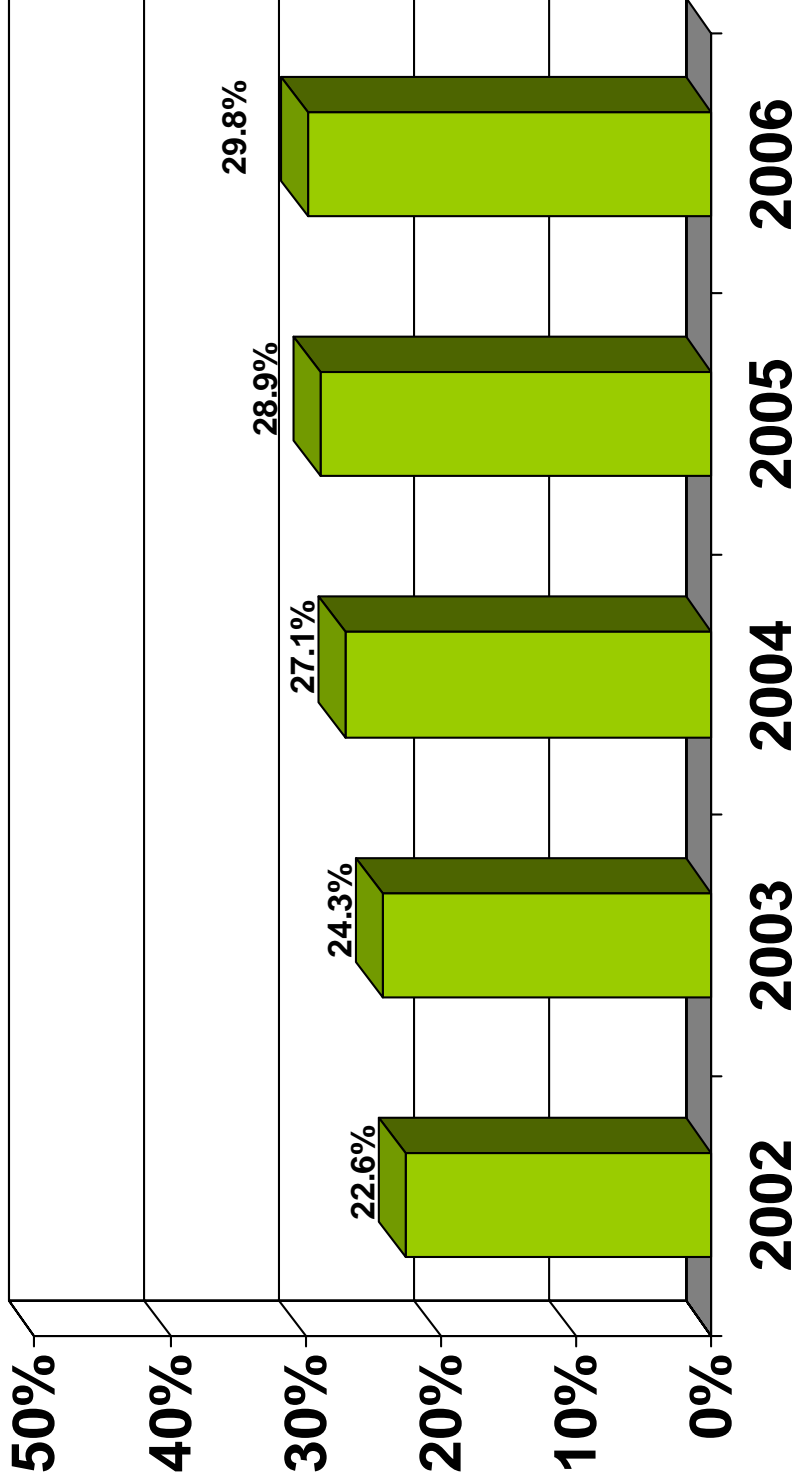
State General Fund Appropriations Revenue  
as a Percentage of Total Revenues (Ratio 1)  
Fiscal Years 2002 - 2006



# ASU

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

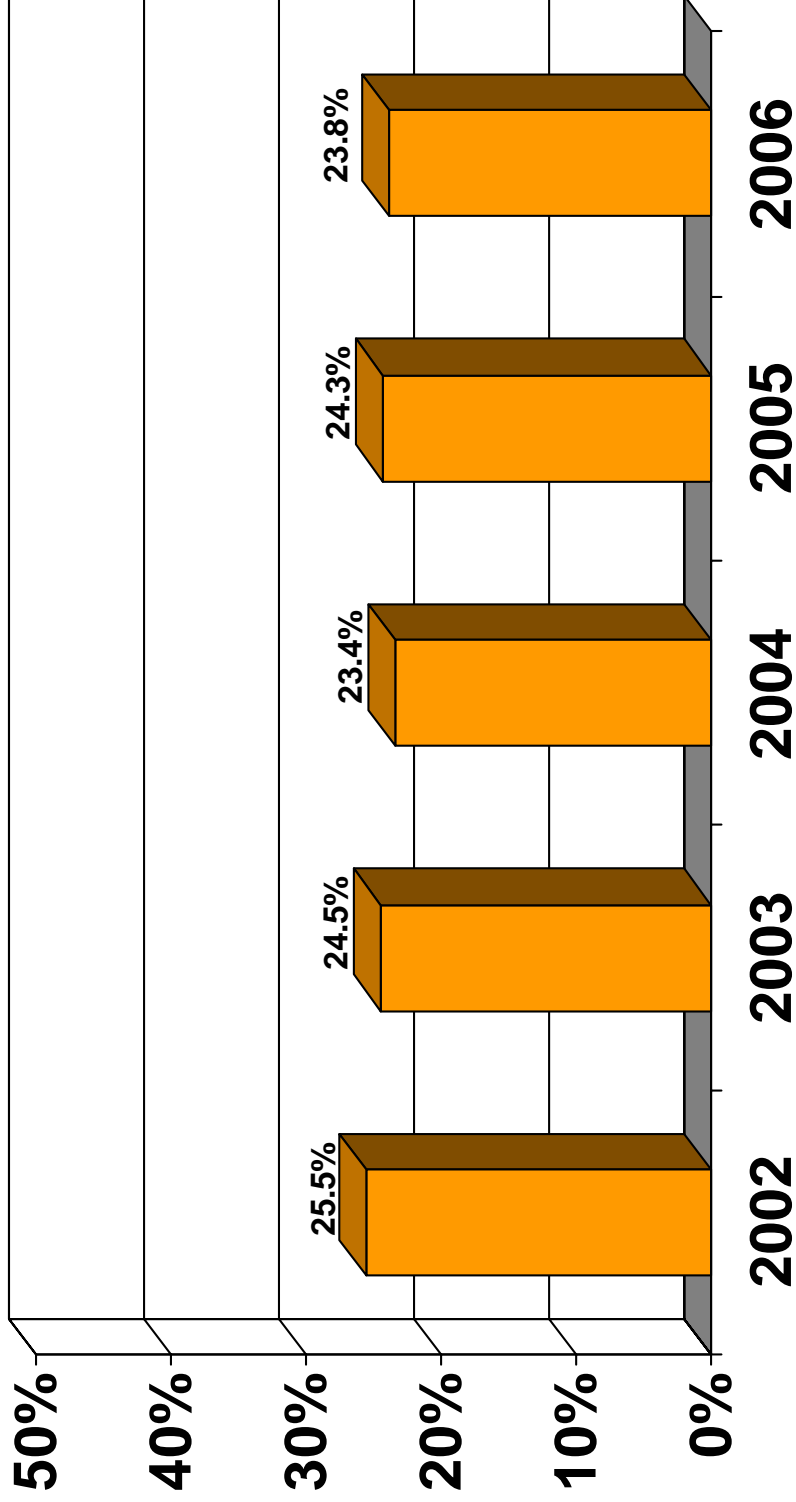
Fiscal Years 2002 - 2006



# ASU

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

Fiscal Years 2002 - 2006

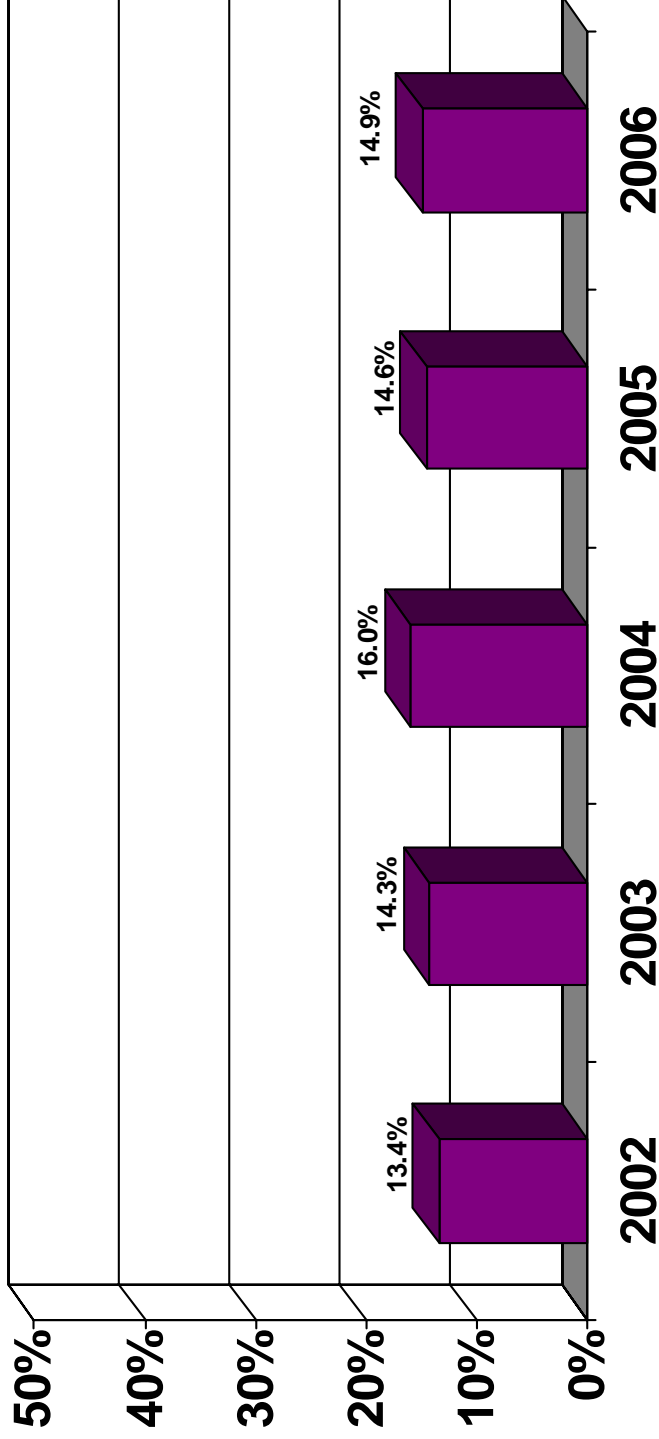


TRIF = Technology and Research Initiative Funding, and is ASU's share of the state education sales tax.

# ASU

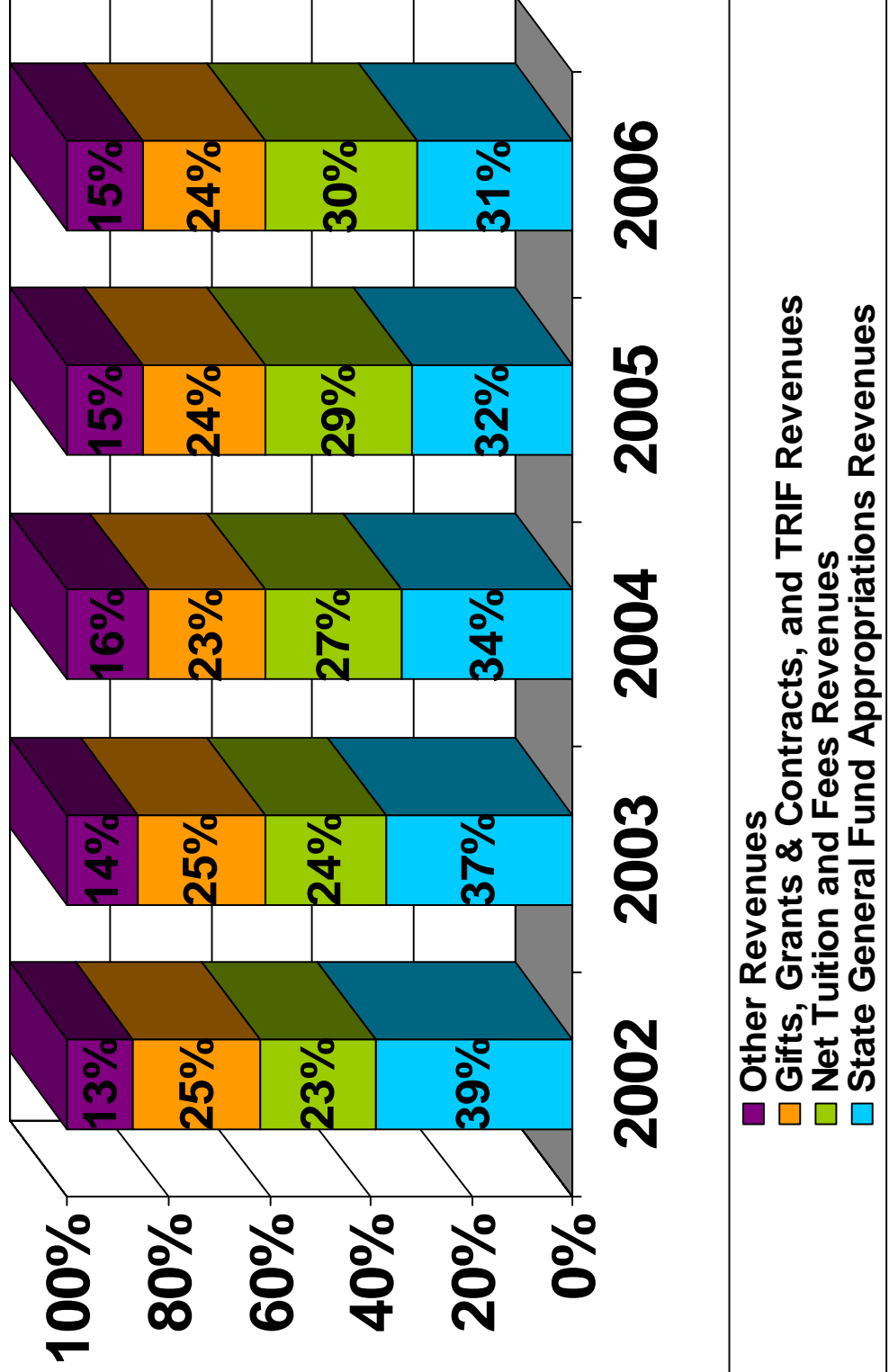
## Other Revenues as a Percentage of Total Revenues (Ratio 4)

Fiscal Years 2002 - 2006



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

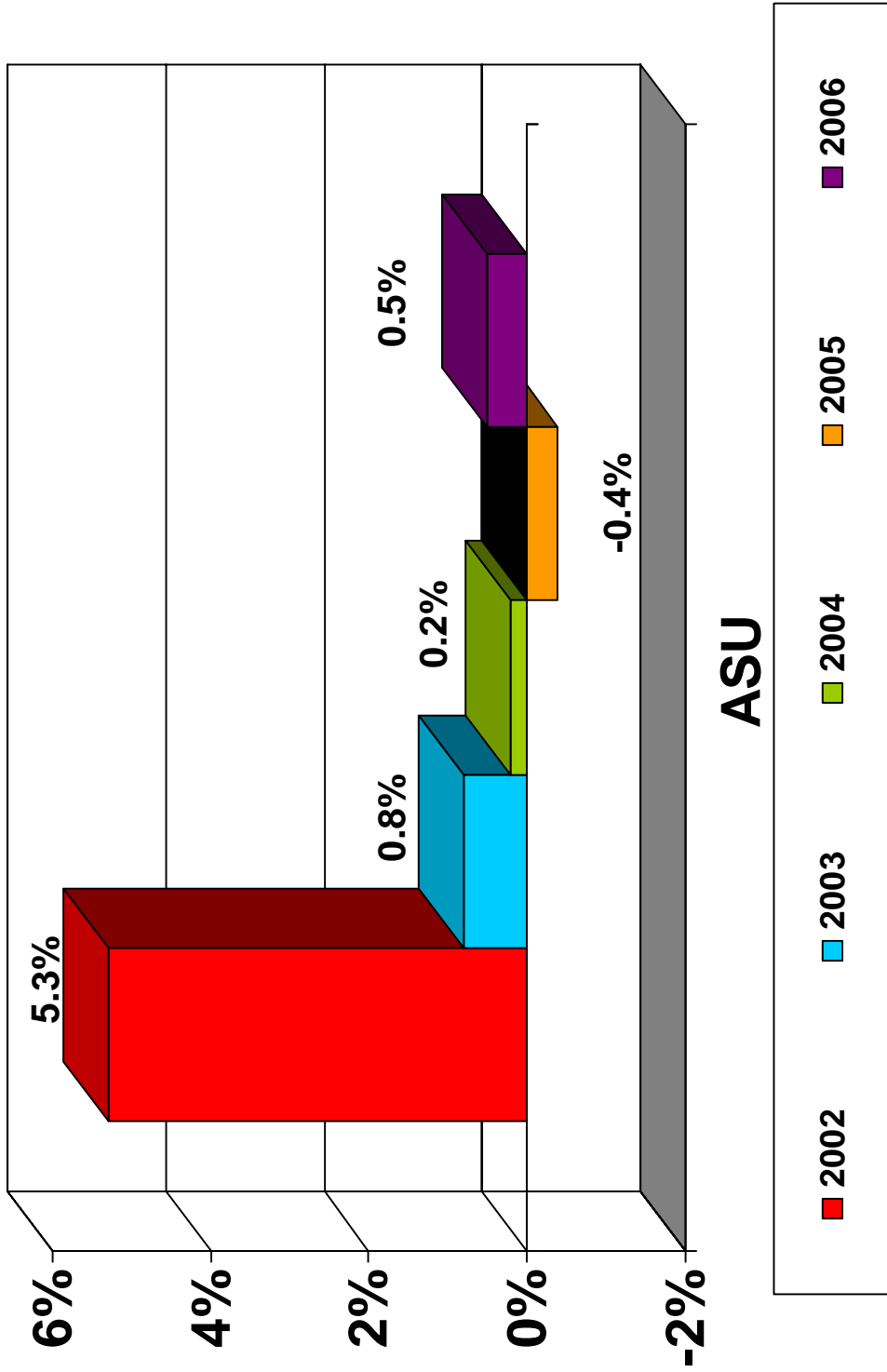
ASU  
Total Revenue Composition (Ratios 1 - 4)  
Fiscal 2002 - 2006



# ASU

## Net Revenues to Total Revenues (Ratio 5)

Fiscal Years 2002 - 2006

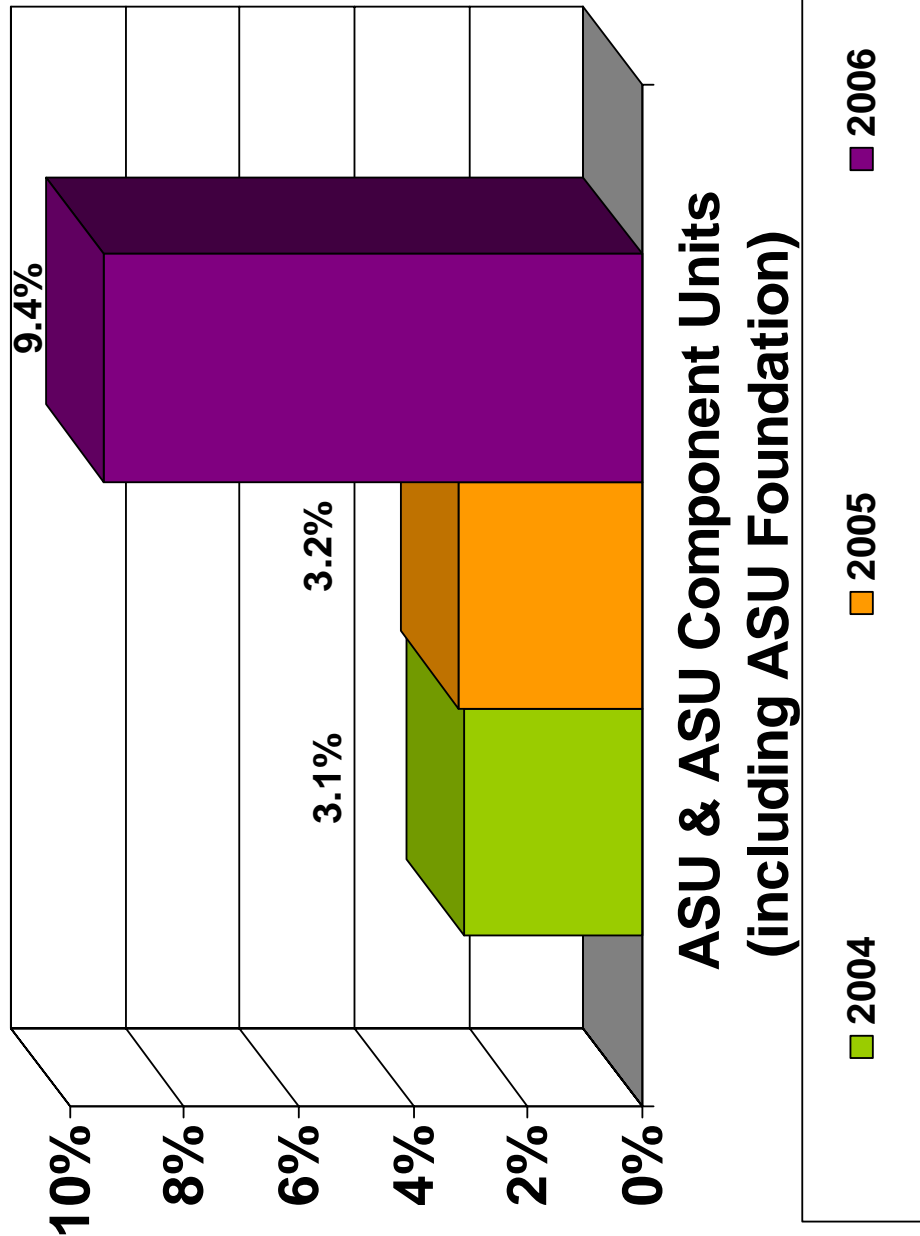


# ASU & ASU Component Units (including ASU Foundation)

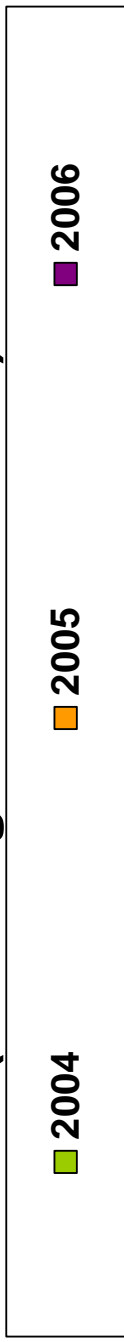
Graph H

## Net Revenues to Total Revenues (Ratio 6)

Fiscal Years 2004 - 2006



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



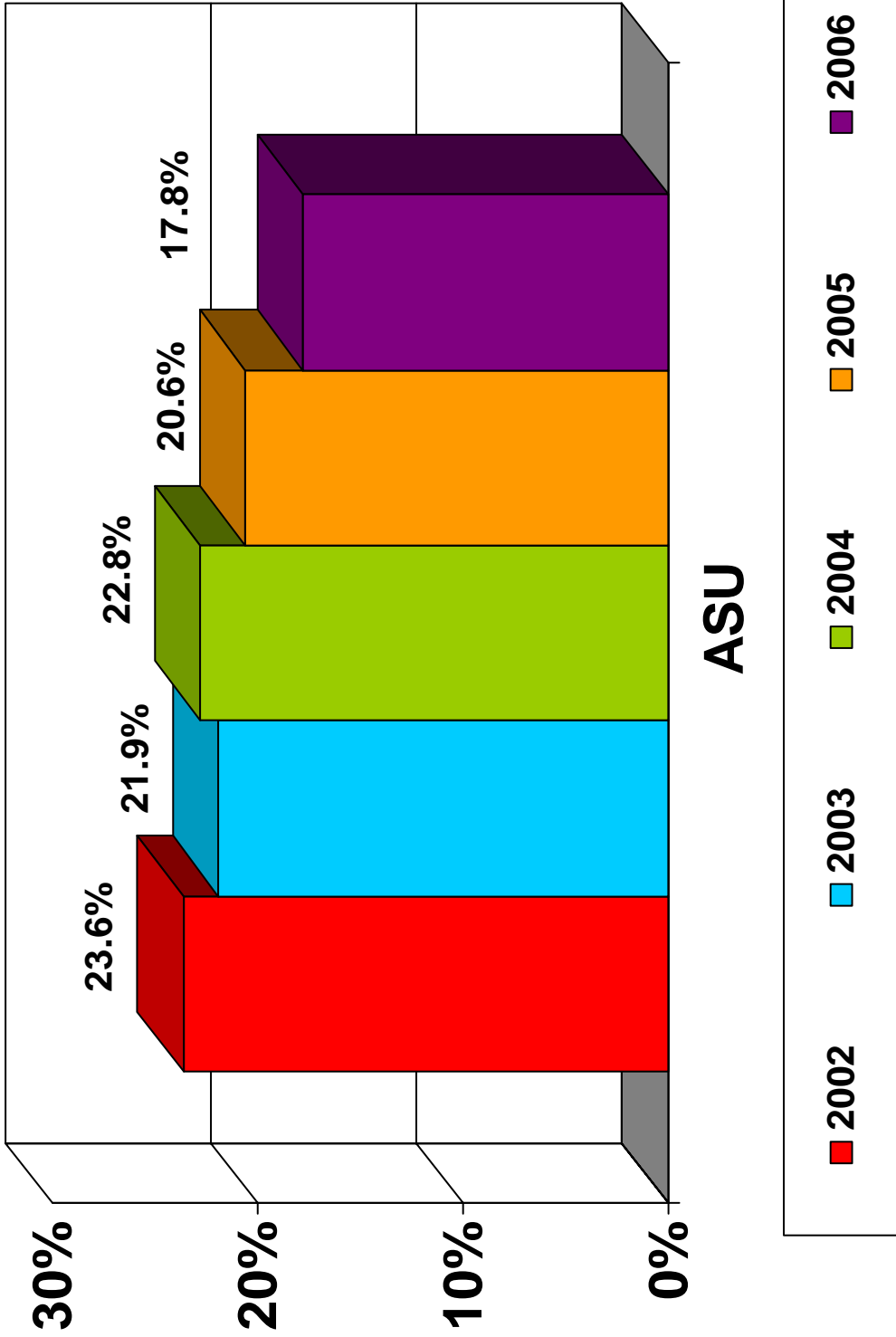
Only 2004, 2005, and 2006 information is available.

# ASU

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

Fiscal Years 2002 - 2006

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

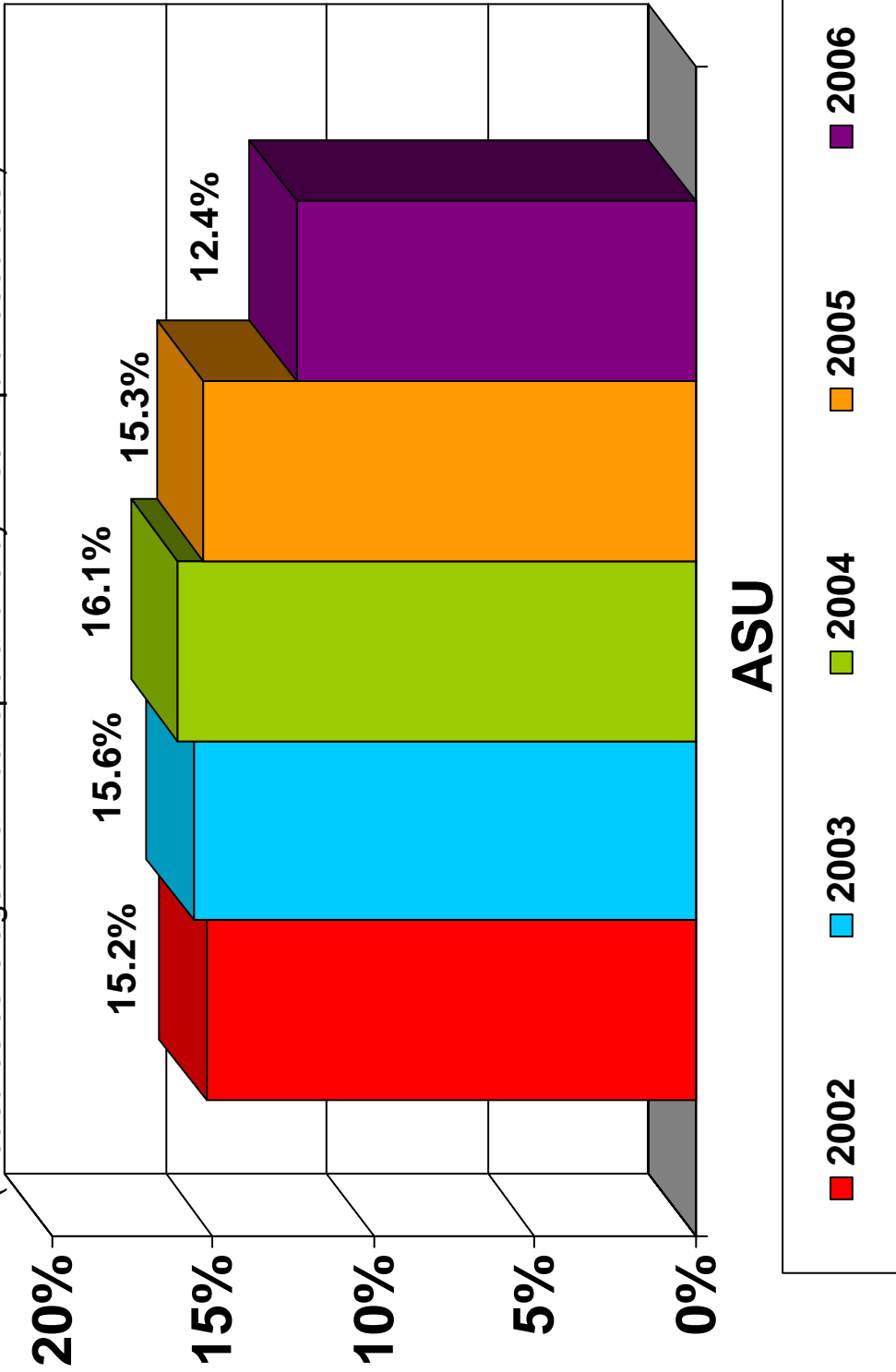


# ASU

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

Fiscal Years 2002 - 2006

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

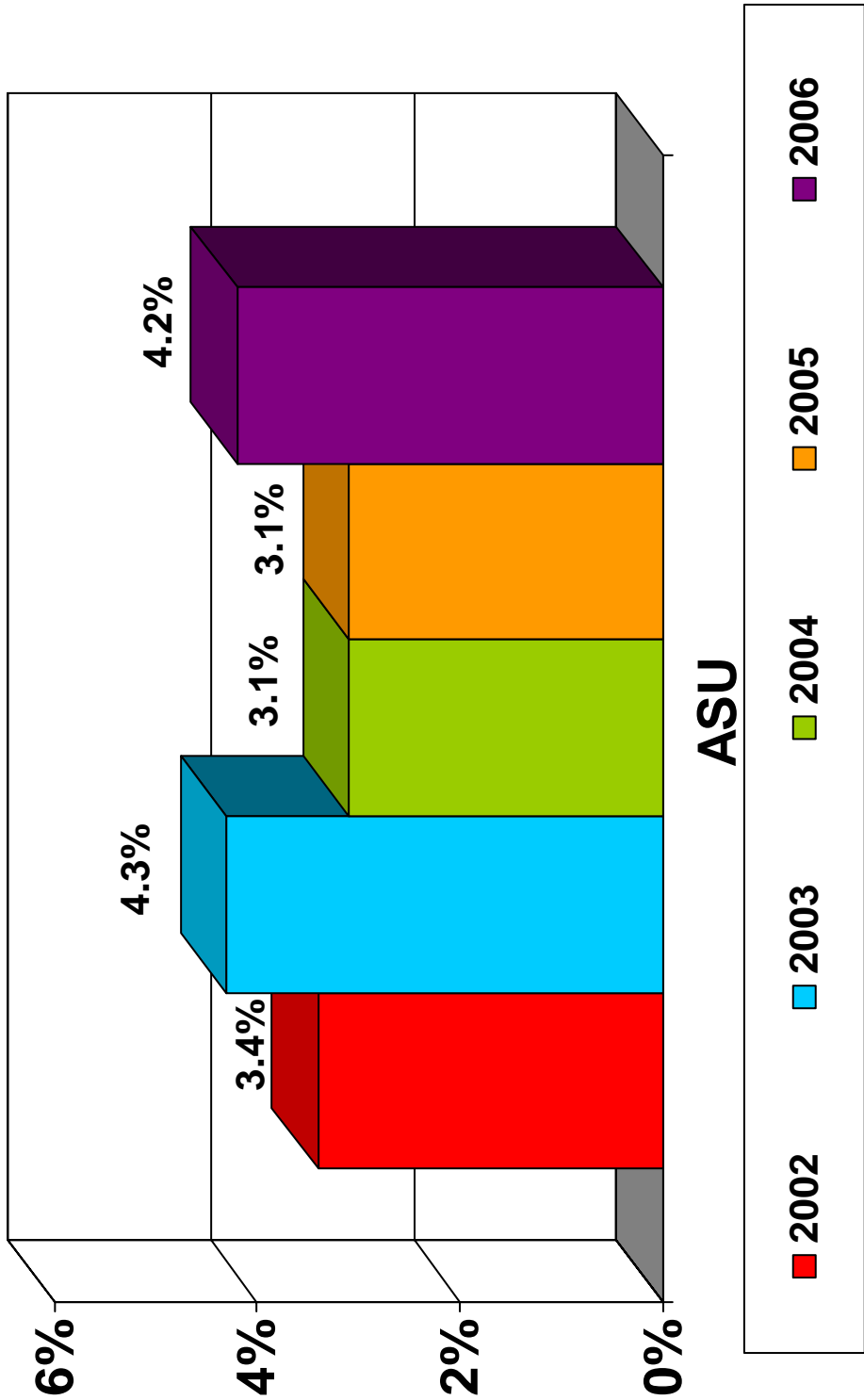


# ASU

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

Fiscal Years 2002 - 2006

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



# ASU and ASU Component Units

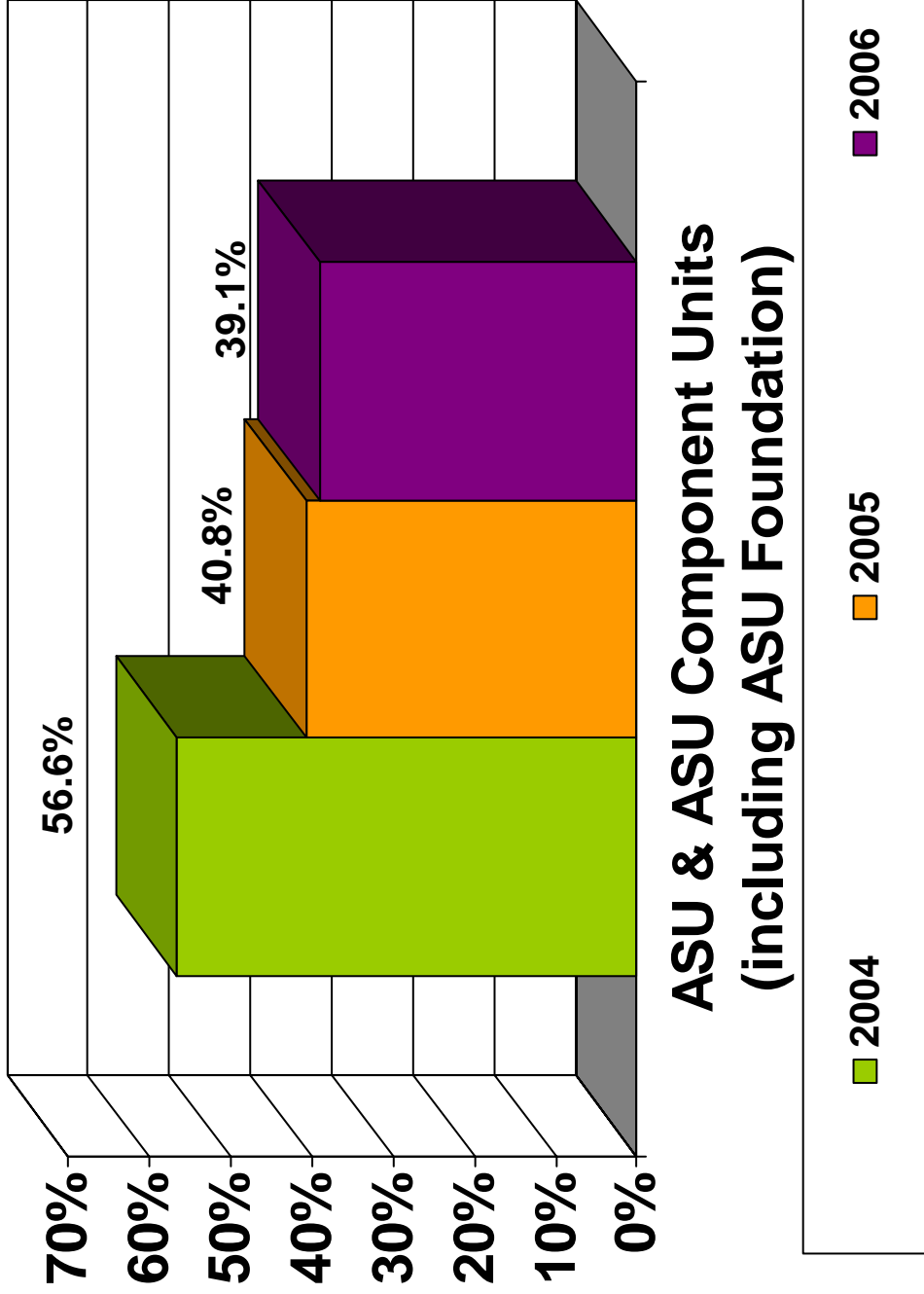
Graph L

(including ASU Foundation)

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

Fiscal Years 2004 - 2006

(Measures coverage of debt by all available resources.)



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

■ 2004

■ 2005

■ 2006

Only 2004, 2005, and 2006 information is available.

ASU Financial Services



**NORTHERN ARIZONA UNIVERSITY**  
**Financial Ratios for Fiscal Years 2002 to 2006**  
(dollars in millions)

Ratio	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
1 <u>State General Fund Appropriations</u>	112	111	112	118	125
Total Revenues	264	271	294	311	332
NAU only	42.4%	41.0%	38.1%	37.9%	37.7%
2 <u>Net Tuition and Fees Revenue</u>	51	53	71	74	82
Total Revenues	264	271	294	311	332
NAU only	19.3%	19.6%	24.1%	23.8%	24.7%
3 <u>Gifts, Grants &amp; Contracts, and TRIF Revenue</u>	64	67	71	76	74
Total Revenues	264	271	294	311	332
NAU only	24.2%	24.8%	24.1%	24.4%	22.3%
TRIF - Technology & initiative research funding. NAU's share of the state education sales tax.					
4 <u>Other Revenues</u>	37	40	40	40	46
Total Revenues	264	271	294	311	332
NAU only	14.0%	14.8%	13.6%	12.9%	13.9%
5 <u>Net Revenues</u>	(3)	2	15	24	10
Total Revenues	264	271	294	311	332
NAU only	-1.1%	0.7%	5.1%	7.7%	3.0%
6 <u>Net Revenues</u>			19	28	16
Total Revenues			305	333	344
NAU and component units			6.2%	8.4%	4.7%
7 <u>Expendable Net Assets</u>	46	62	52	64	67
Total Expenses	267	269	279	287	321
NAU only	17.2%	23.0%	18.6%	22.3%	20.9%
8 <u>Unrestricted net assets</u>	26	29	37	45	47
Total expenses	267	269	279	287	321
NAU only	9.7%	10.8%	13.3%	15.7%	14.6%
9 <u>Debt Service Payments (int &amp; princ)</u>	11	14	15	18	20
Total Expenses	267	269	279	287	321
NAU only	4.1%	5.2%	5.4%	6.3%	6.2%
10 <u>Total financial resources , net</u>			95	108	107
Direct debt			144	217	276
NAU and component units			66.0%	49.8%	38.8%

## NORTHERN ARIZONA UNIVERSITY

### FINANCIAL STATEMENTS ANALYSIS – FISCAL 2006

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, 2006. 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 five 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 three 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 2006? (Ratios 1 – 4)

Graph A shows the overall NAU revenue trends over the last five 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. During the five year period reported, the percentage of general fund appropriations revenues to total revenues has declined from 42.4% in fiscal 2002 to 37.7% in fiscal 2006. State appropriations dollars have increased by \$13 million, or a percentage increase of 12% during this period, from \$112 million in fiscal 2002 to \$125 million in fiscal 2006.

- 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 24.7% in fiscal 2006, with increases occurring in four of the five years 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 \$31 million during this period, from \$51 million in fiscal 2002 to \$82 million in fiscal 2006 resulting in a percentage increase of 61% during the five 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 five year reporting period from a high of 24.2% in fiscal 2002 to a low of 22.3% in fiscal 2006. Total gifts, grants, contracts, and Technology Research Incentive Fund (TRIF) dollars increased during this period by \$10 million from \$64 million in fiscal 2002 to \$74 million in fiscal 2006. This was a 16% percentage increase in this revenue source during the reporting period. With the completion of several major new research facilities planned 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 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 fluctuated over the time period reported in dollar amounts between \$37 million in 2002 to \$46 million in 2006. The percentage change varied from a low of 12.9% in 2005 to a high of 14.8% in 2003 of total revenues. In dollar totals, auxiliary enterprises revenues accounted for a large amount of the increase from a total of \$28 million in fiscal 2002 to \$38 million in fiscal 2006, a 36% percentage increase. Another significant portion of other revenues is investment income which increased from \$1 million in 2002 to almost \$7 million in 2006.

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

Over the five year reporting period NAU has experienced a 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 42.4% in fiscal 2002 to approximately 37.7% in fiscal 2006. 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 24.7% in fiscal 2006. Total University revenues have increased from \$264 million in fiscal 2002 to \$332 million in fiscal 2006, a 26% 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 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 low of negative 1.1% in fiscal 2002 to a high of 7.7% in fiscal 2005. 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 and continued the trend in 2006 with an increase of \$10 million. This ratio demonstrates NAU's commitment to a balanced budget and to building reserves from previous year's depletion. A significant portion of these monies will be used to address outfitting 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 fluctuates 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 five years ranges between 17.2% in fiscal year 2002 to 20.9% in fiscal year 2006, with an average of 20.4%. 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 20.9% indicates the University has approximately eleven (11) weeks of annual spending available from end year expendable net assets. This could limit 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 eight (8) weeks of spending coverage at the end of fiscal 2006 roughly the same as fiscal 2005.

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 2006 debt service ratio for NAU was 6.2%, 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 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 reported, the fiscal 2006 ratio of 38.8% still 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 each of the five 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 2006 semester and is working to continue that trend. The University has opened new housing that is in high demand, outsourced its bookstore, is working towards a new food service contract and is planning to expand its dining facilities in Spring 2007. 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 \$68 million between fiscal 2002 and fiscal 2006. Over the same period, the University has controlled expenditures and balanced its budget each year resulting in increased financial stability.
- 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 have the capacity for future additional debt financings. NAU anticipates issuing approximately \$37 million in new debt during fiscal 2007

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. NAU's financial position has improved over the last five 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.



# Financial Graphs

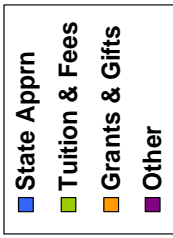
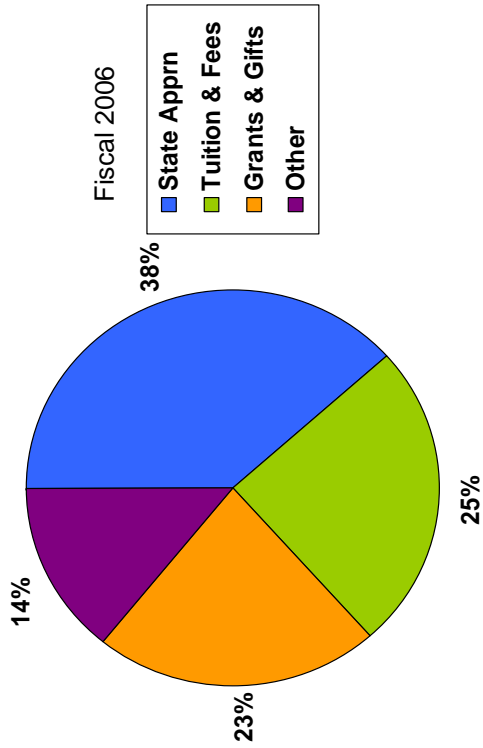
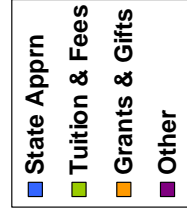
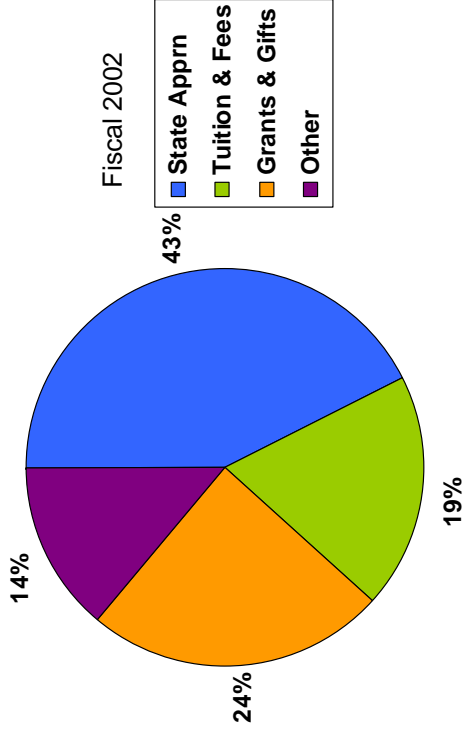
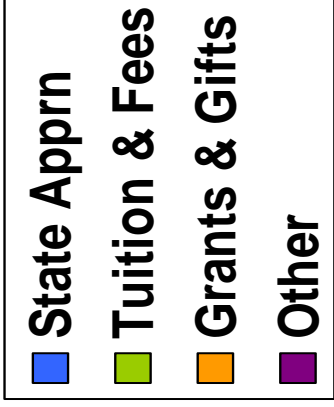
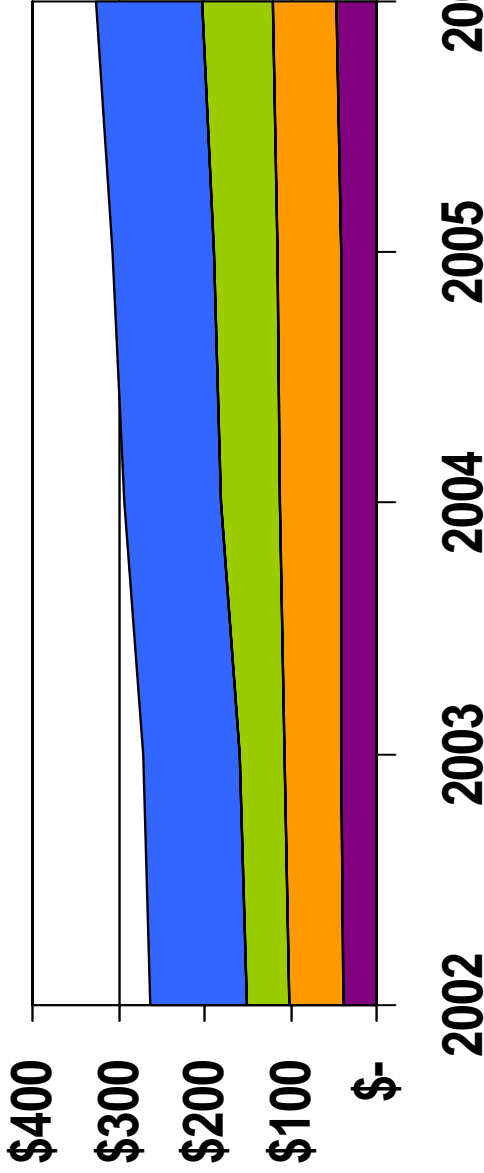
(Based on Financial Ratios Presented to the  
Arizona Board of Regents)

Fiscal Years 2002 - 2006

# NAU REVENUE TRENDS

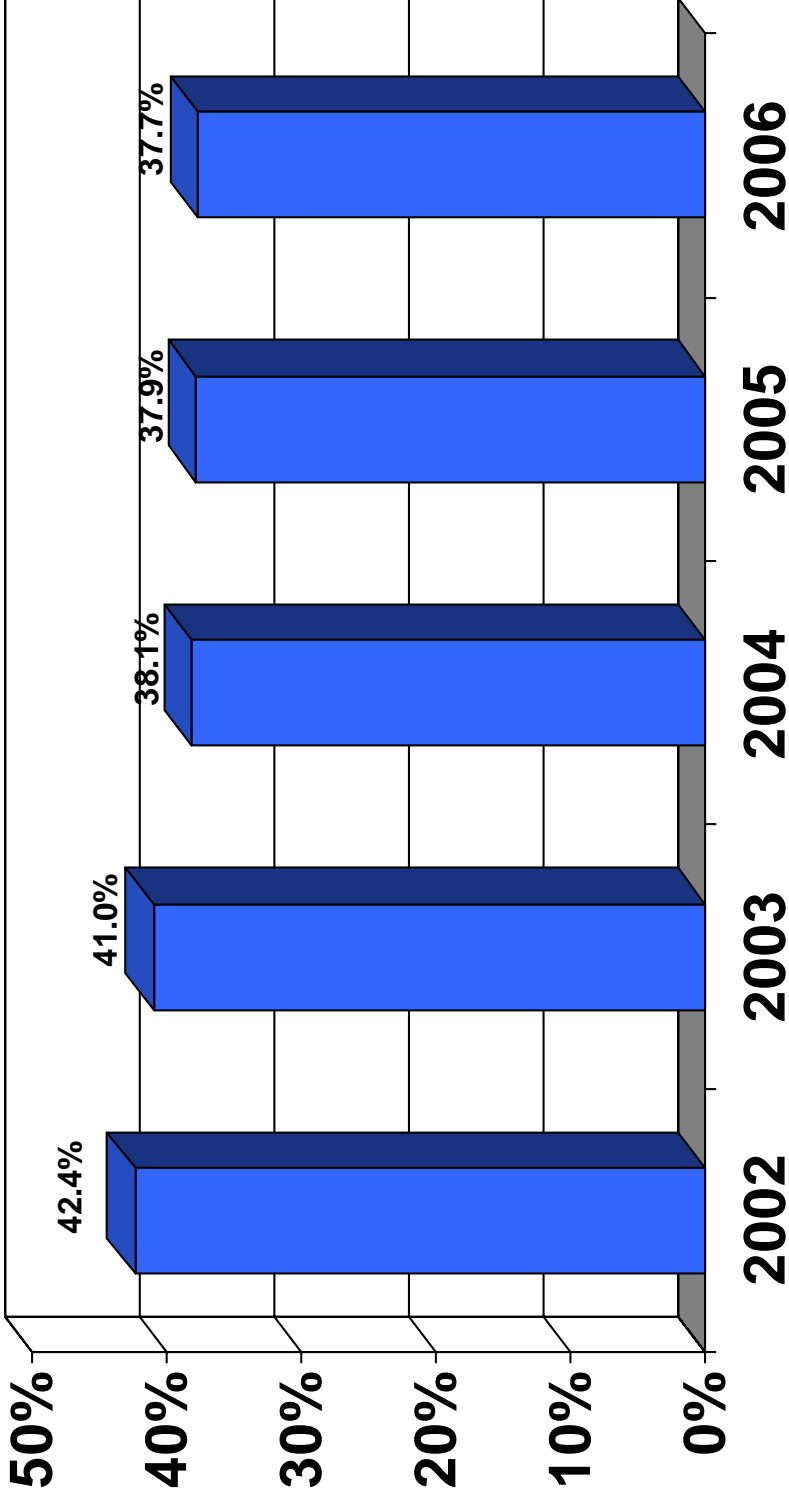
Graph A

(Dollars in Millions)



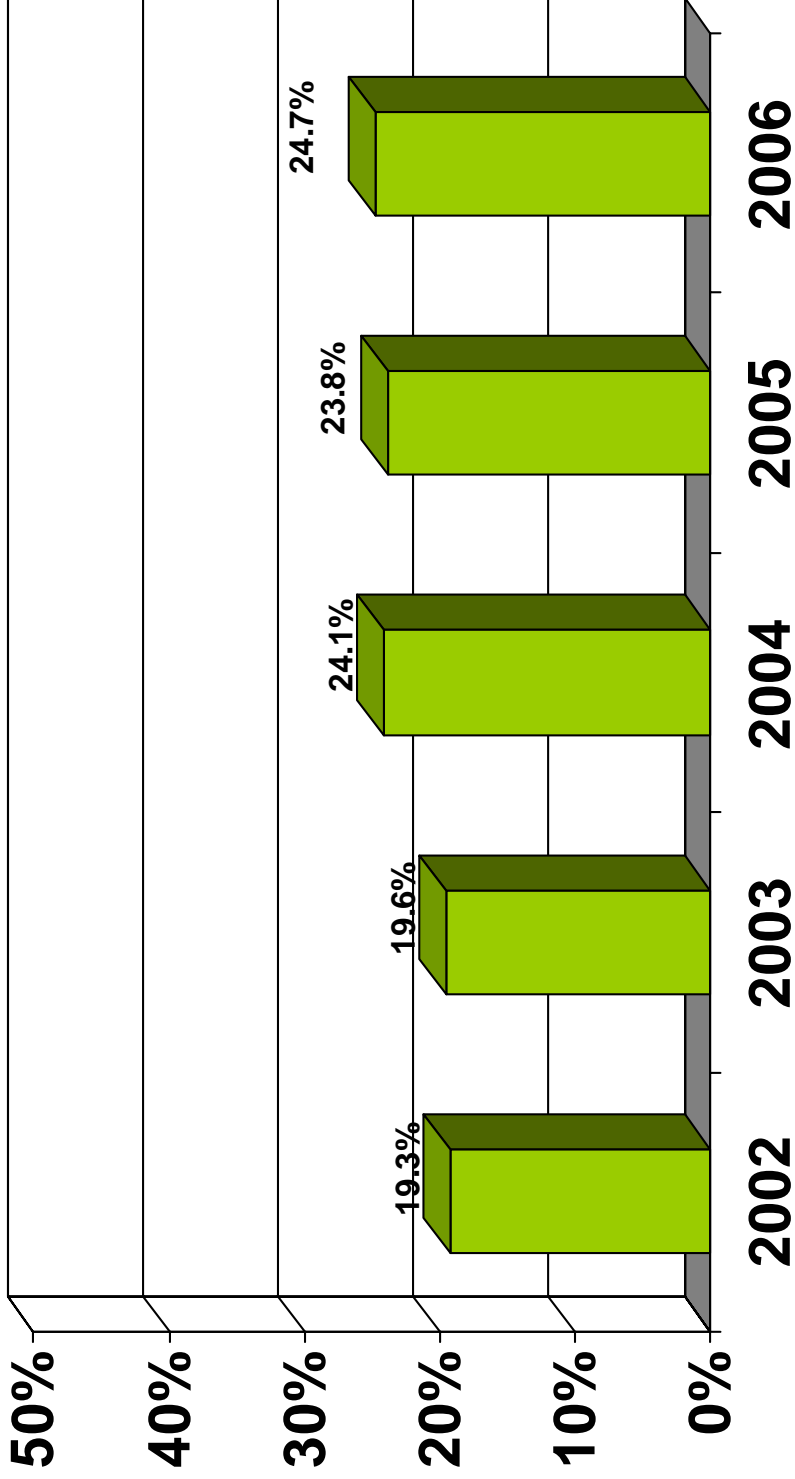
# NAU

## State General Fund Appropriations Revenue as a Percentage of Total Revenues (Ratio 1) Fiscal Years 2002 - 2006



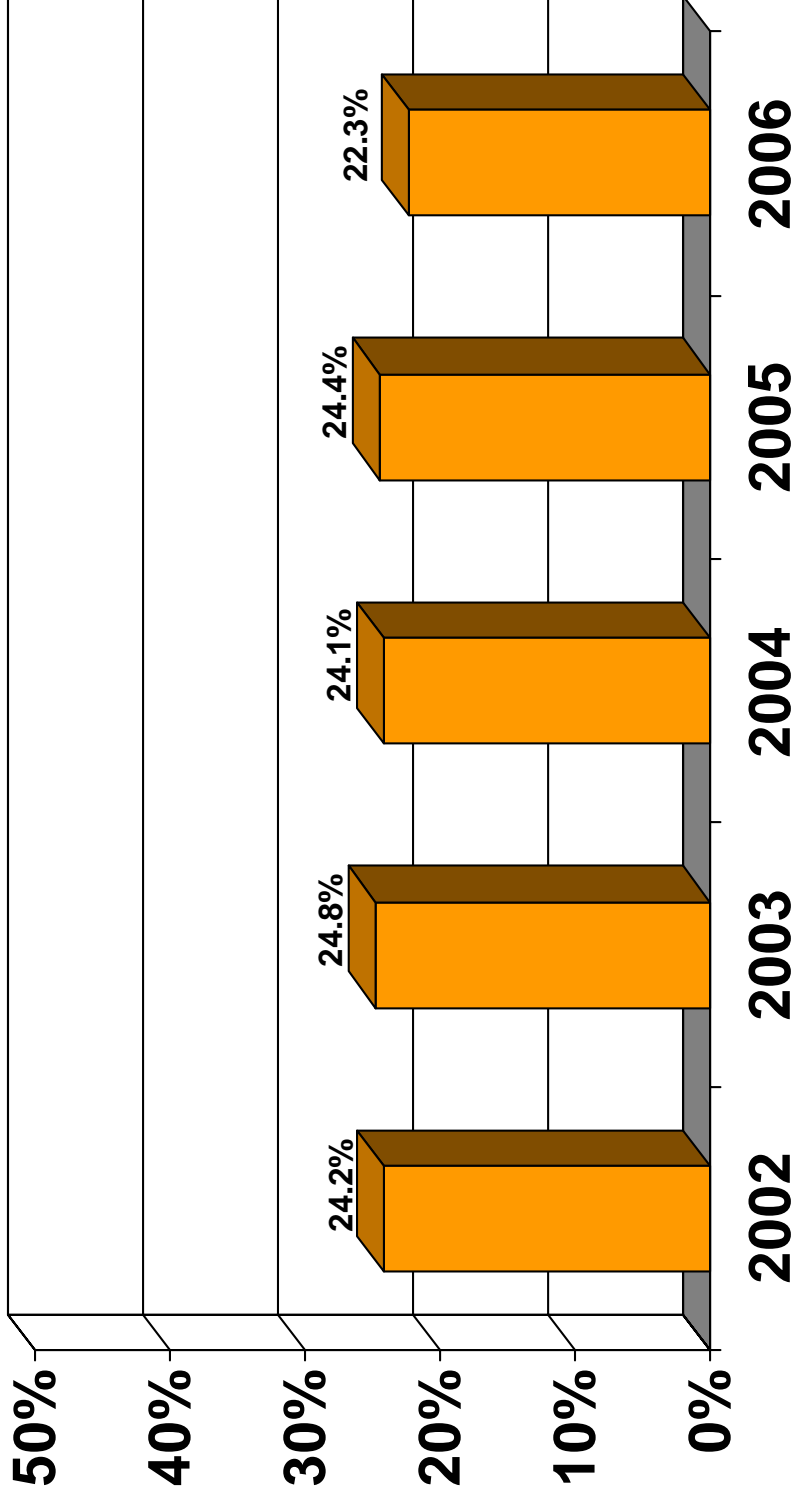
# NAU

Net Tuition and Fees Revenue  
as a Percentage of Total Revenues (Ratio 2)  
Fiscal Years 2002 - 2006



# NAU

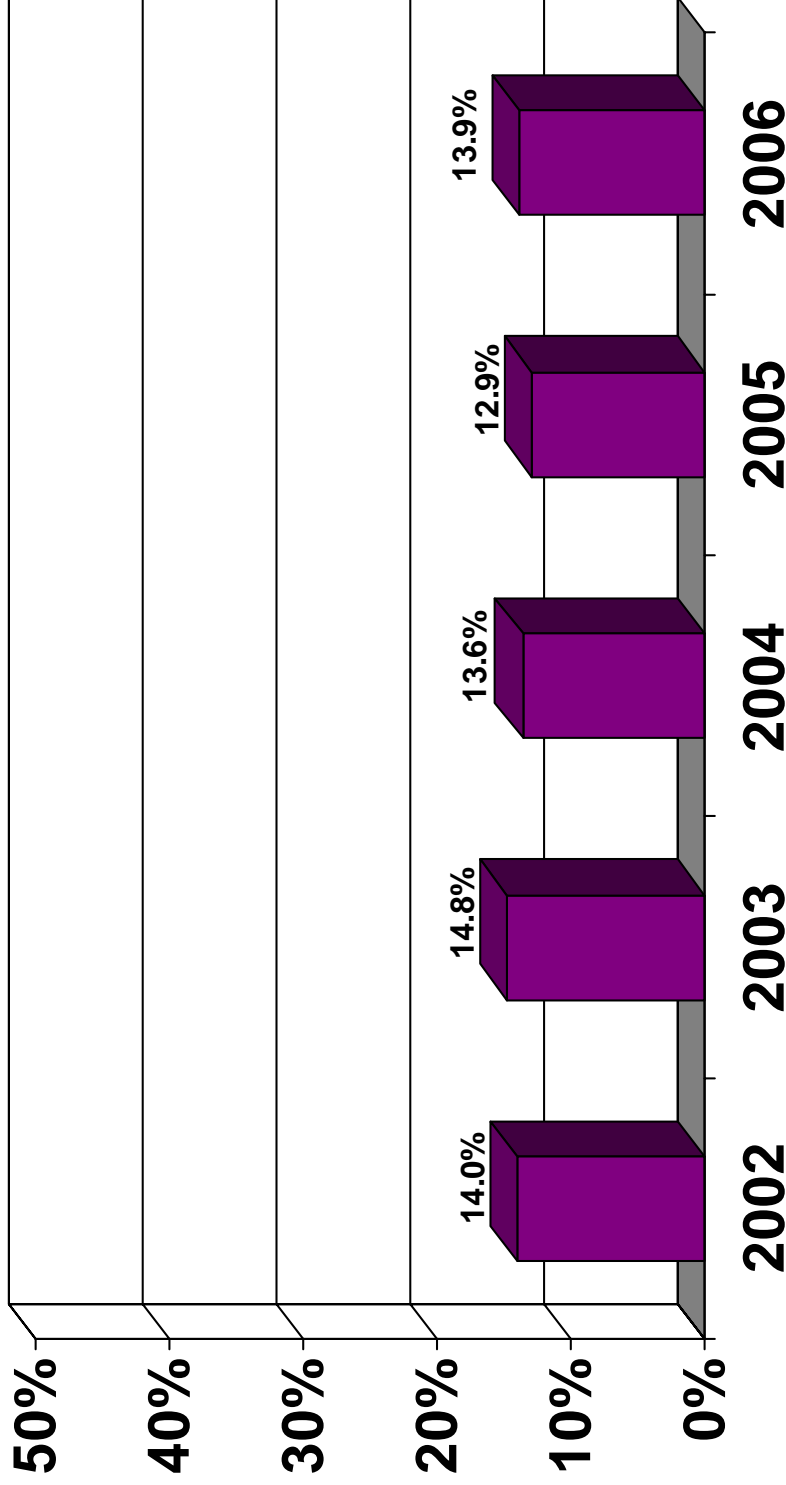
Gifts, Grants & Contracts, and TRIF Revenues  
as a Percentage of Total Revenues (Ratio 3)  
Fiscal Years 2002 - 2006



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 - 2006

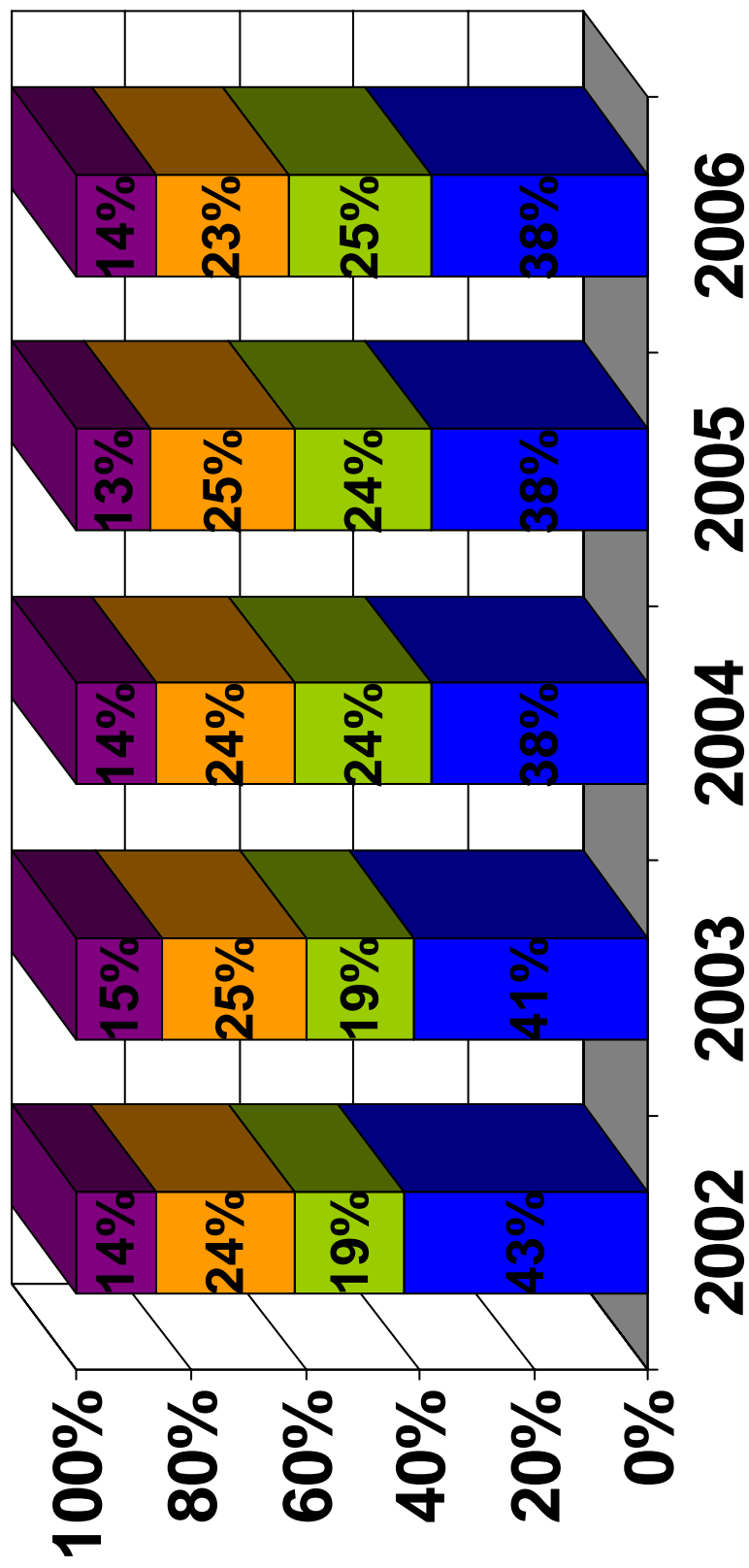


Other revenues primarily include auxiliary enterprises revenues, sales and services revenues of academic departments and net investment income.

NAU Comptroller

# University Total Revenue Composition (Ratios 1 - 4)

Fiscal 2002 - 2006

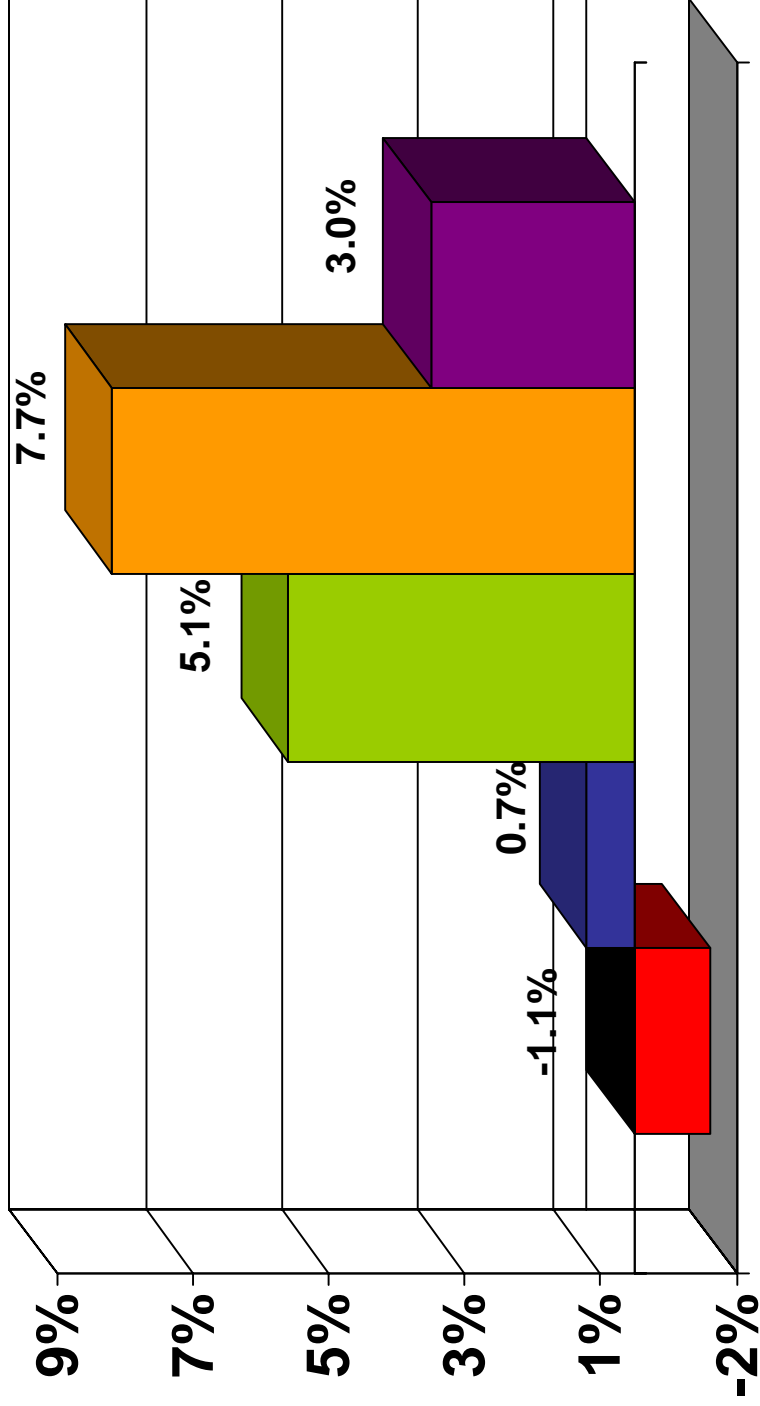


- Other Revenue
- Gifts, Grants & Contracts, and TRIF Revenue
- Net Tuition and Fees Revenue
- State General Fund Appropriations Revenues

# NAU

## Net Revenues to Total Revenues (Ratio 5)

Fiscal Years 2002 - 2006



# NAU

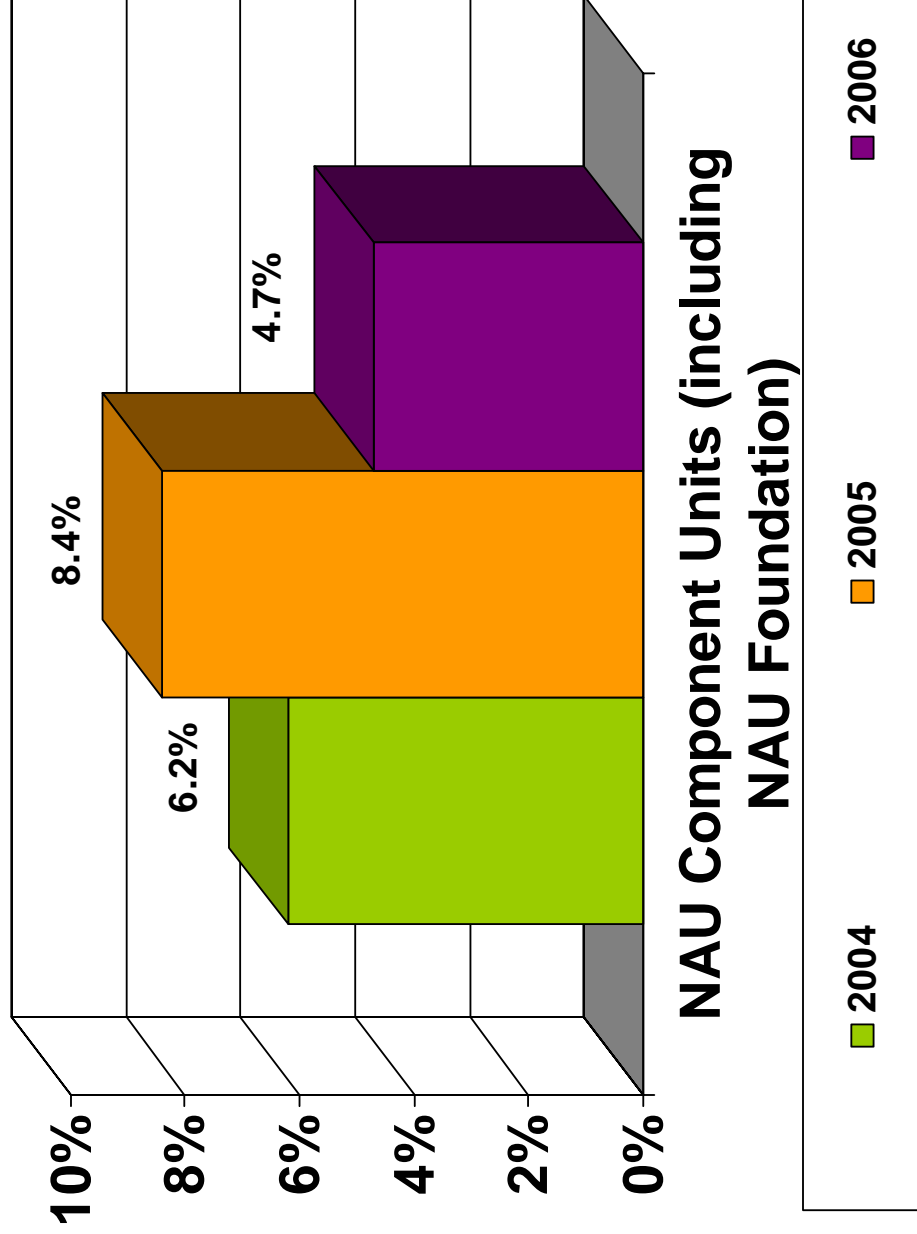


# NAU Component Units (including NAU Foundation)

Graph H

## Net Revenues to Total Revenues (Ratio 6)

### Fiscal Years 2004 - 2006



Only 2004, 2005, and 2006 information is available.

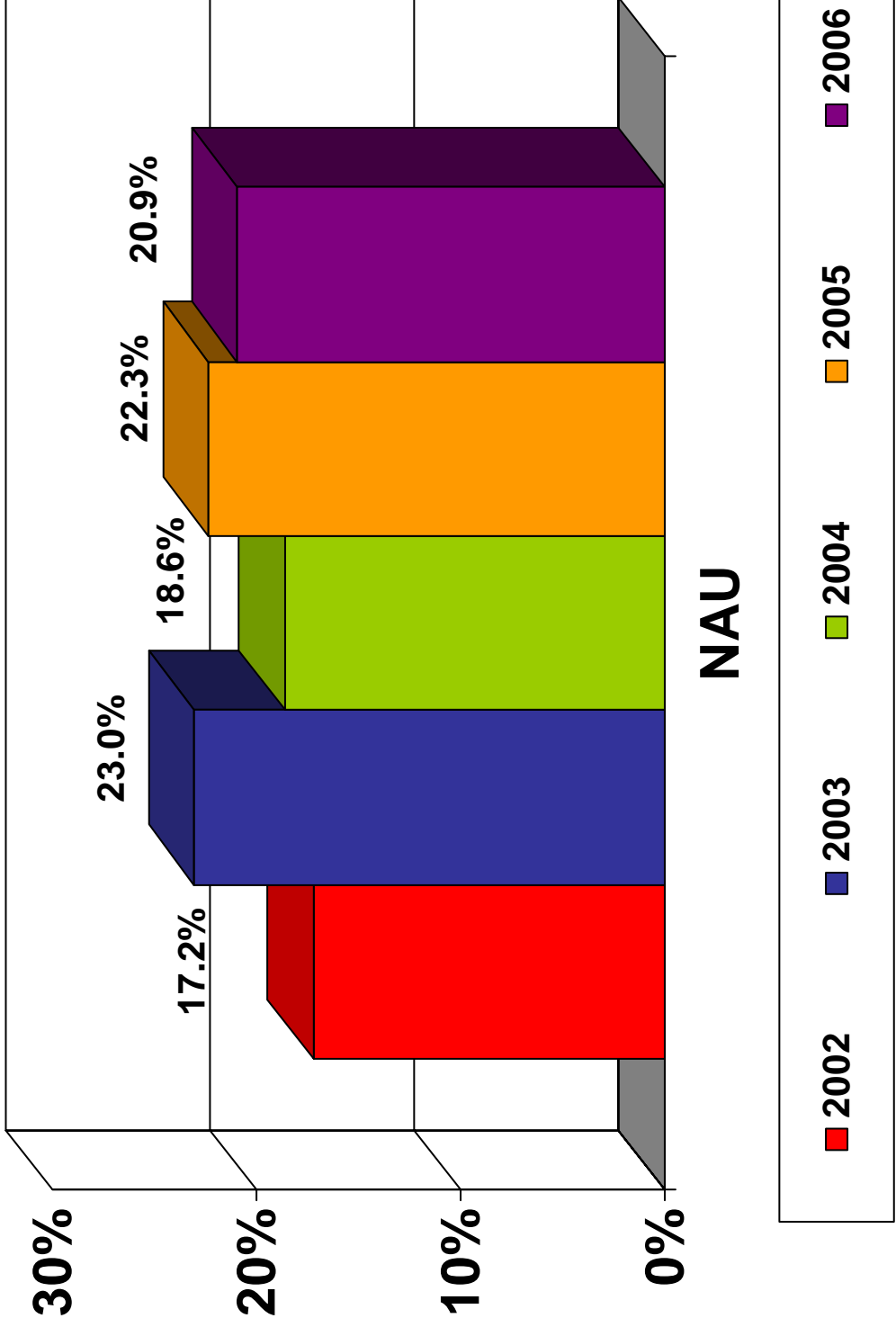
NAU Comptroller

# NAU

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

Fiscal Years 2002 - 2006

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

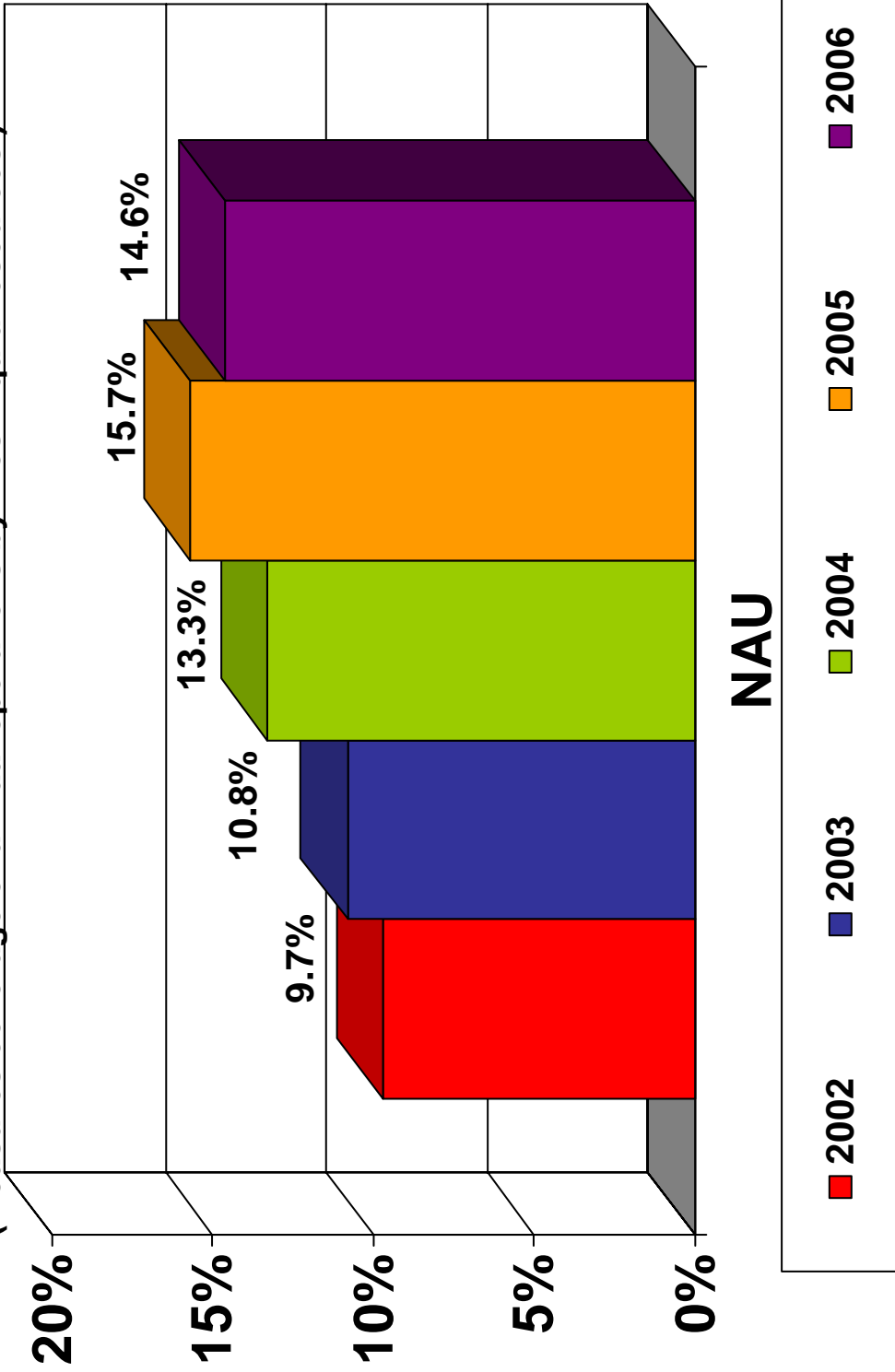


# NAU

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

Fiscal Years 2002 - 2006

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



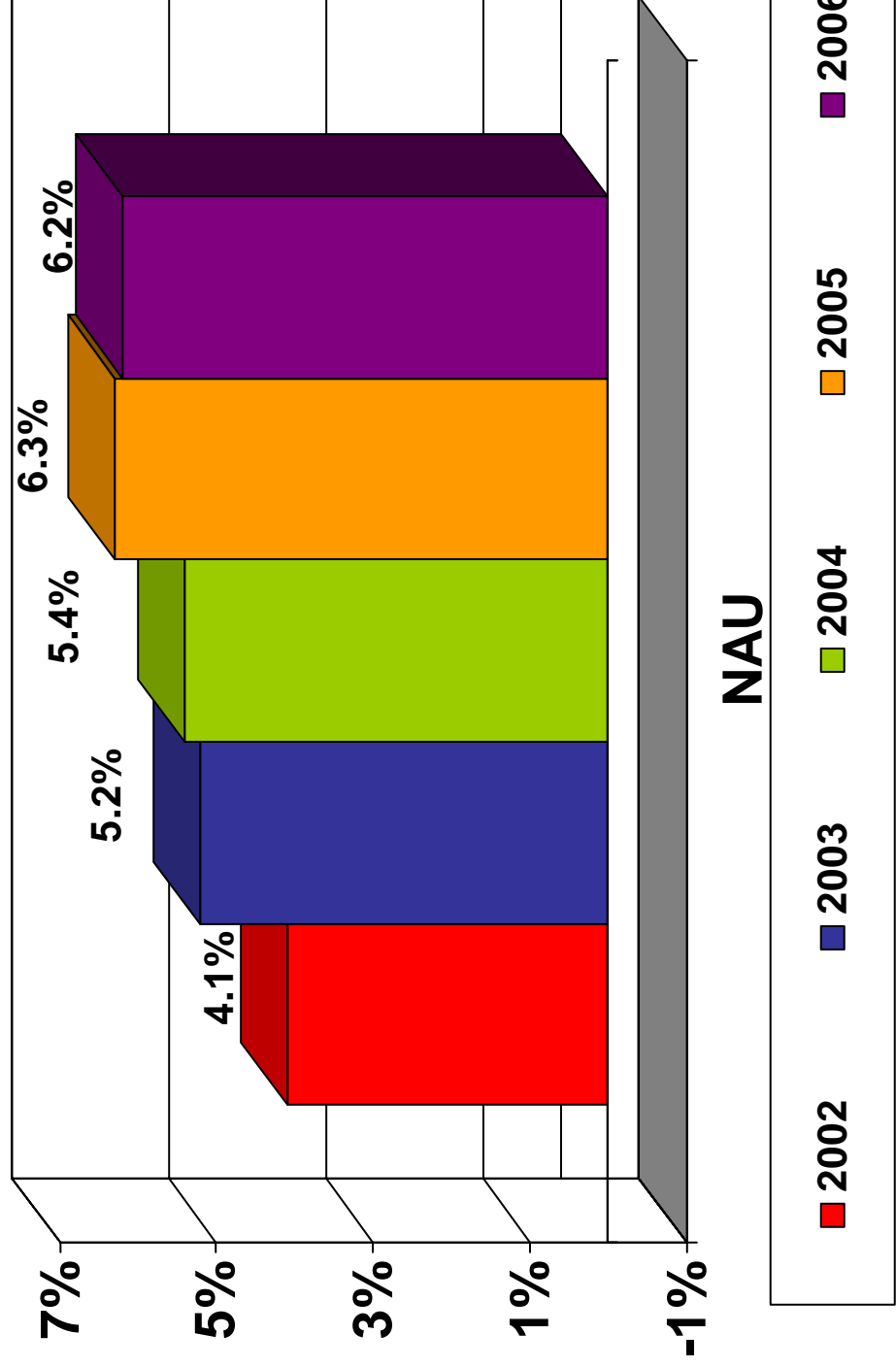
# NAU

Graph K

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

Fiscal Years 2002 - 2006

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



# NAU and NAU Component Units

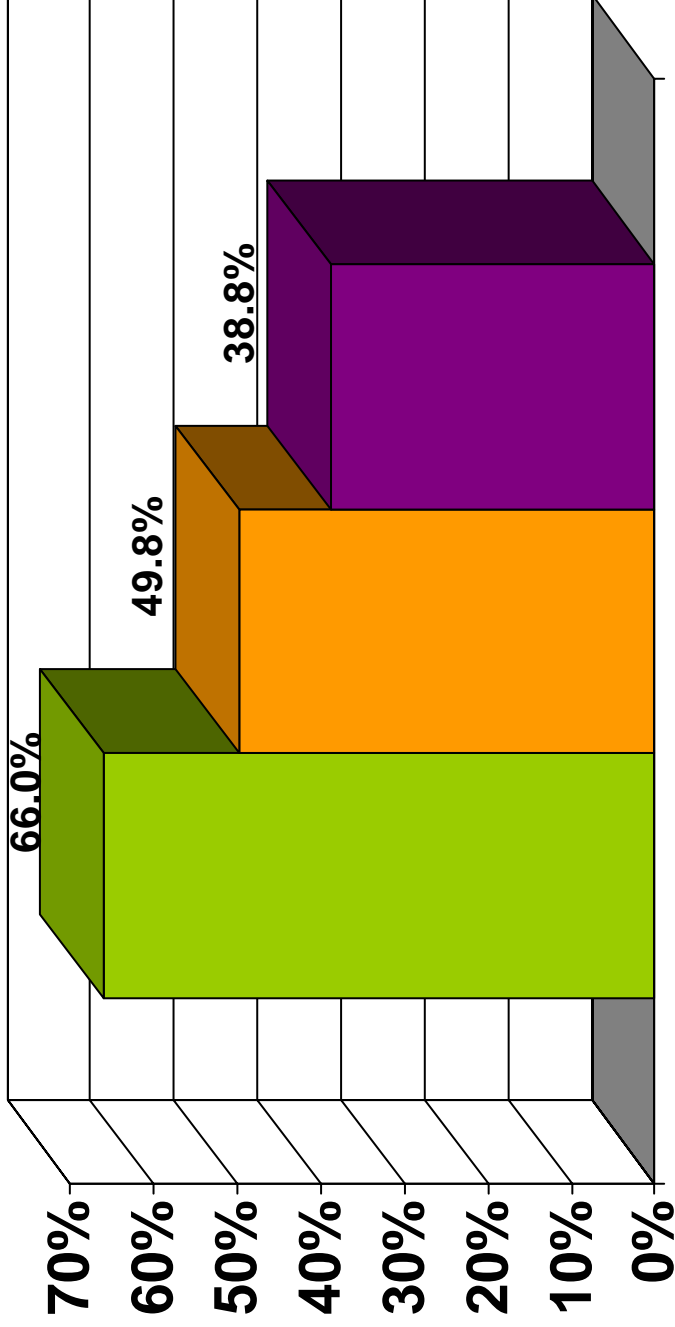
Graph L

(including NAU Foundation)

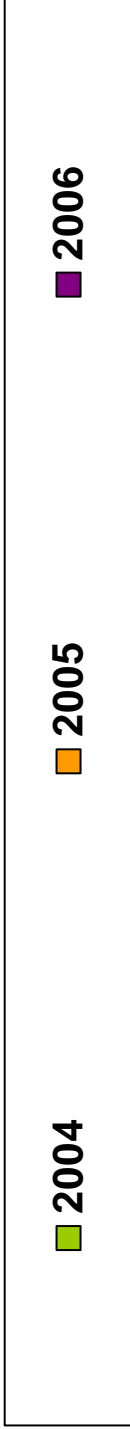
## Total Financial Resources to Direct Debt (Ratio 10)

Fiscal Years 2004 - 2006

(Measures coverage of debt by all available resources.)



## NAU & Component Units (including NAU Foundation)



Only 2004, 2005, and 2006 information is available.



**THE UNIVERSITY OF ARIZONA**  
**Financial Ratios for Fiscal Years: 2002 to 2006**  
(dollars in millions)

Ratio	2002	2003	2004	2005	2006
1 <u>State General Fund Appropriations</u>	329	324	317	334	358
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	33.0%	29.9%	27.6%	27.7%	27.6%
2 <u>Net Tuition and Fees Revenue</u>	140	150	173	182	193
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	14.0%	13.9%	15.1%	15.1%	14.9%
3 <u>Gifts, Grants &amp; Contracts, and TRIF Revenue</u>	396	463	493	511	523
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	39.7%	42.8%	42.9%	42.4%	40.4%
TRIF - Technology & initiative research funding. UA's share of the state education sales tax.					
4 <u>Other Revenues</u>	127	146	166	177	221
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	12.7%	13.5%	14.4%	14.7%	17.1%
5 <u>Net Revenues</u>	19	34	15	13	32
Total Revenues	997	1,083	1,149	1,204	1,295
UA only	1.9%	3.1%	1.3%	1.1%	2.5%
6 <u>Net Revenues</u>			49	66	63
Total Revenues			1,244	1,311	1,295
UA and component units			3.9%	5.0%	4.9%
7 <u>Expendable Net Assets</u>	232	222	204	207	272
Total Expenses	978	1,049	1,134	1,190	1,262
UA only	23.7%	21.2%	18.0%	17.4%	21.6%
8 <u>Unrestricted net assets</u>	120	121	107	101	150
Total expenses	978	1,049	1,134	1,190	1,262
UA only	12.3%	11.5%	9.4%	8.5%	11.9%
9 <u>Debt Service Payments (int &amp; princ)</u>	46	46	48	54	58
Total Expenses	978	1,049	1,134	1,190	1,262
UA only	4.7%	4.4%	4.2%	4.5%	4.6%
10 <u>Total financial resources , net</u>			628	707	806
Direct debt			808	789	854
UA and component units			77.7%	89.6%	94.4%

## THE UNIVERSITY OF ARIZONA

### FINANCIAL STATEMENTS ANALYSIS – FISCAL 2006

**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, 2006. 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 five 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 three 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 2006? (Ratios 1 – 4)  
Graph A shows the overall UA revenue trends over the last five 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 five year period reported, the percentage of general fund appropriations revenues to total revenues has declined from 33.0% in fiscal 2002 to 27.6% in fiscal 2006. State appropriations dollars have increased by \$29 million, or a percentage increase of 8.8% during this period, from \$329 million in fiscal 2002 to \$358 million in fiscal 2006.

- 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 14.9% in fiscal 2006, with increases occurring in three of the five years being reported. The 2006 rate increase was not in line with UA Other Revenues, thus reflecting a decrease in percentage. 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 \$53 million during this period, from \$140 million in fiscal 2002 to \$193 million in fiscal 2006 resulting in a percentage increase of 37.8% during the five 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 five year reporting period from a high of 42.9% in fiscal 2004 to a low of 39.7% in fiscal 2002. The fiscal 2006 percentage was 40.4%. Total gifts, grants, contracts, and TRIF dollars increased during this period by \$127 million from \$396 million in fiscal 2002 to \$523 million in fiscal 2006. This was a 32% increase in this revenue source during the reporting period. With the completion of several major new research facilities in fiscal 2006, 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 74% in dollars between fiscal 2002 and fiscal 2006. In fiscal 2006 UA recorded a \$28.9 million gain on sale of land which was included in this revenue category causing an increase in other revenues as a percentage of total revenues for fiscal 2006. In dollar totals, auxiliary enterprises revenues have increased from \$96 million in fiscal 2002 to \$133 million in fiscal 2006, a 38.5% increase. Sales and services of educational departments, which includes conference and seminar registration fees for UA sponsored events, have increased from \$17 million to \$22.9 million.

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

Over the five 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 2006. 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 2006. Total University revenues have increased from \$997 million in fiscal 2002 to \$1,295 million in fiscal 2006, a 29.8% 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 2.5% in fiscal 2006. Typically it is desired for this ratio to be positive. The UA has maintained positive growth over the past five 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 three 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 five years ranges between 17.4% in fiscal year 2005 to 23.7% in fiscal year 2002, with an average of 20.38%. 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 21.6% indicates the University has approximately eleven 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 weeks of spending coverage at the end of fiscal 2006, up from four weeks of coverage in fiscal 2005.

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 2006 debt service ratio for UA was 4.6%, 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 three year period reported, the fiscal 2006 ratio of 94.4% 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 five 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 \$298 million between fiscal 2002 and fiscal 2006, its net revenues for the last four years have been no greater than \$34 million, just two 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 five year, 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

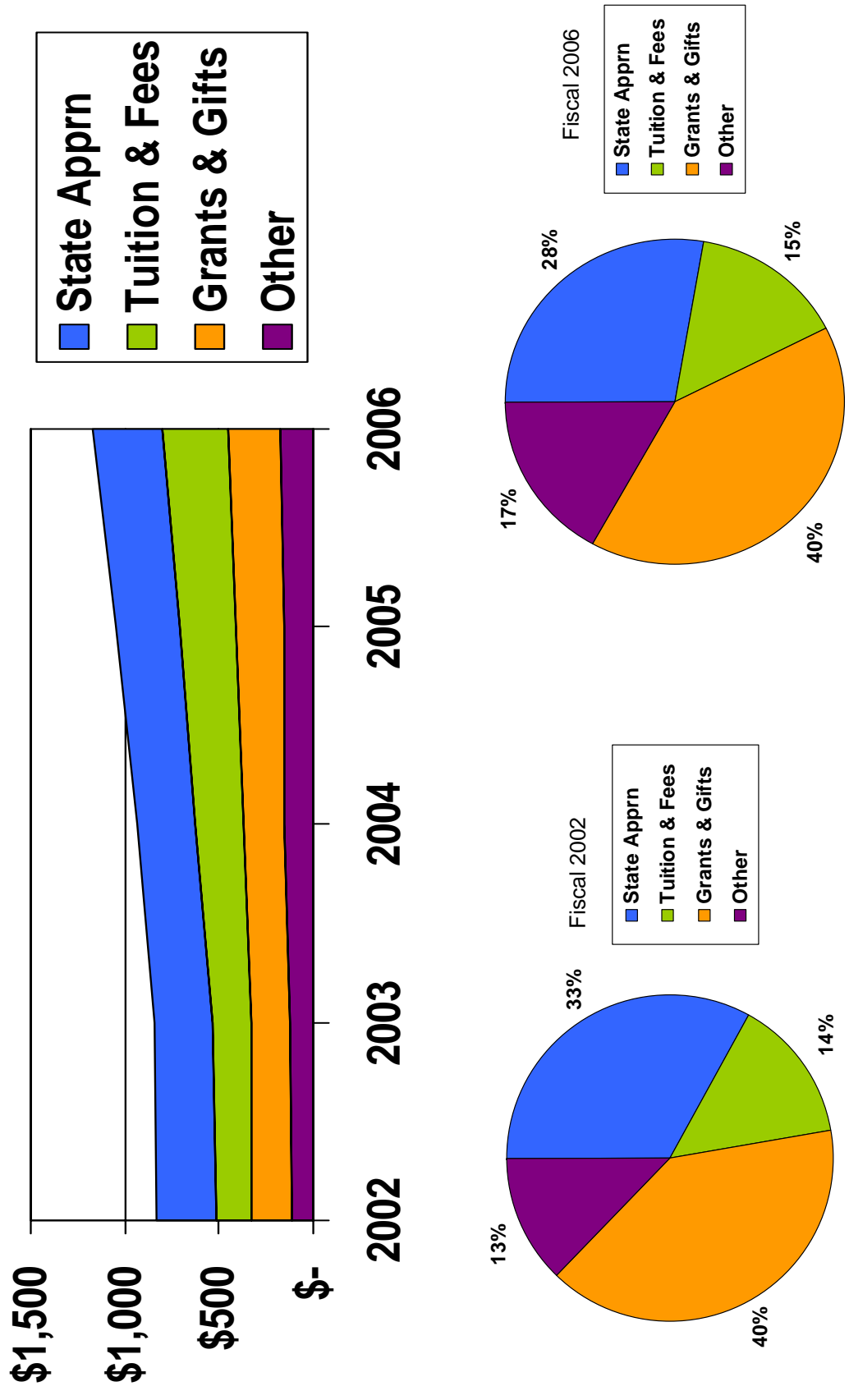
(Based on Financial Ratios Presented to the  
Arizona Board of Regents)

Fiscal Years 2002 - 2006

# UA REVENUE TRENDS

Graph A

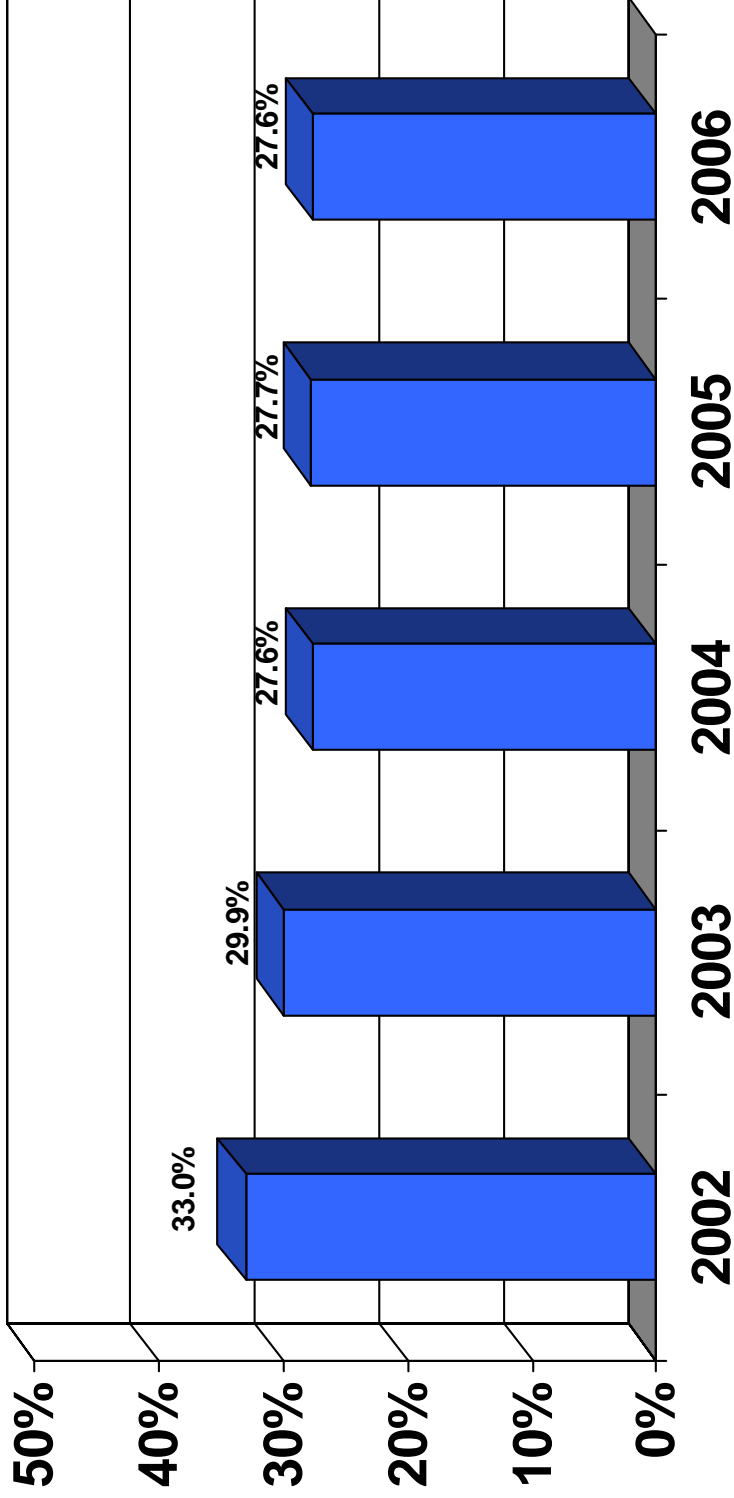
(Dollars in Millions)



# The University of Arizona

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

Fiscal Years 2002 - 2006

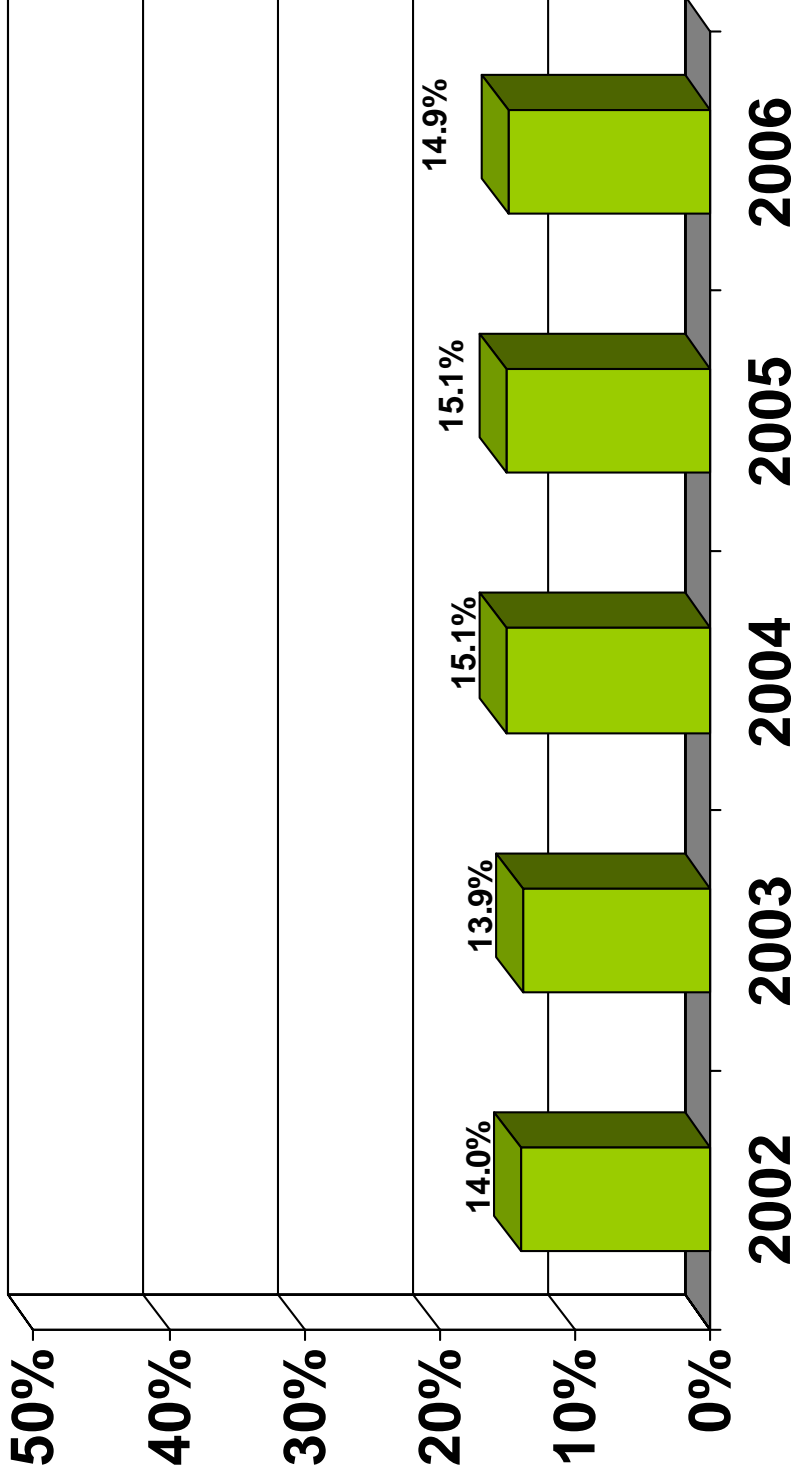


# The University of Arizona

## Net Tuition and Fees Revenue

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

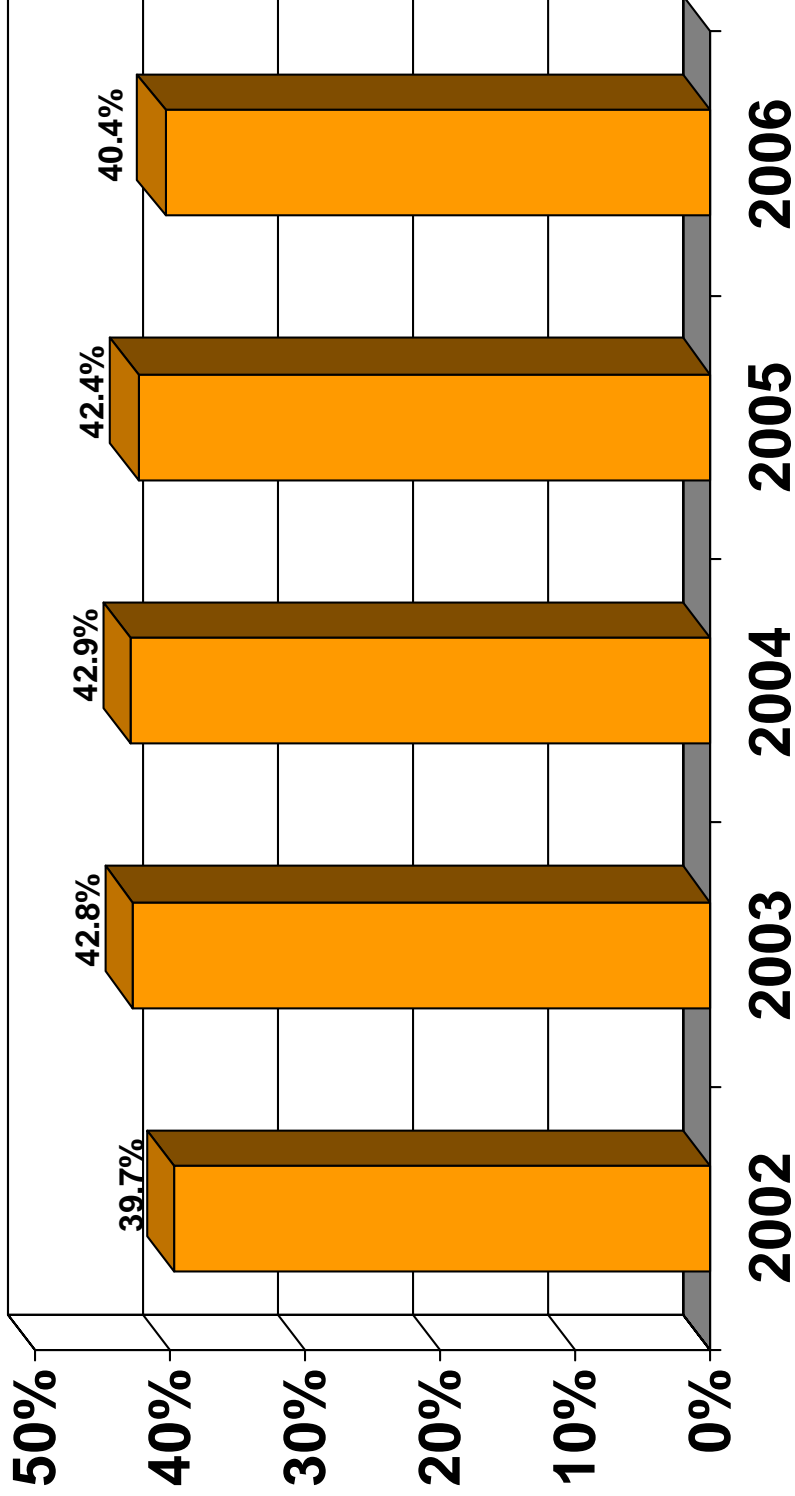
Fiscal Years 2002 - 2006



# The University of Arizona

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

Fiscal Years 2002 - 2006



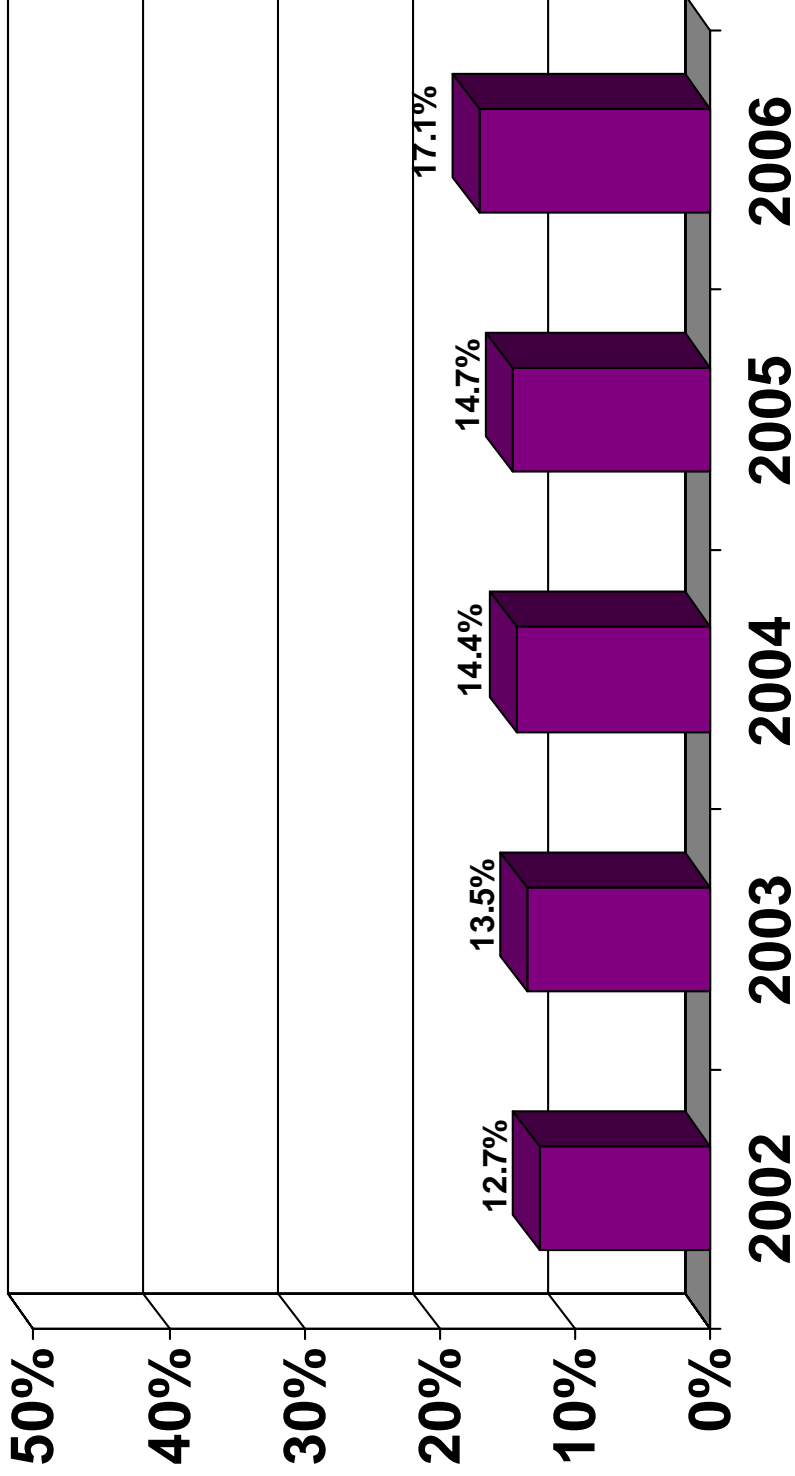
TRIF = Technology and Research Initiative Funding, and is UA's share of the state education sales tax.

# The University of Arizona

## Other Revenues

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

Fiscal Years 2002 - 2006

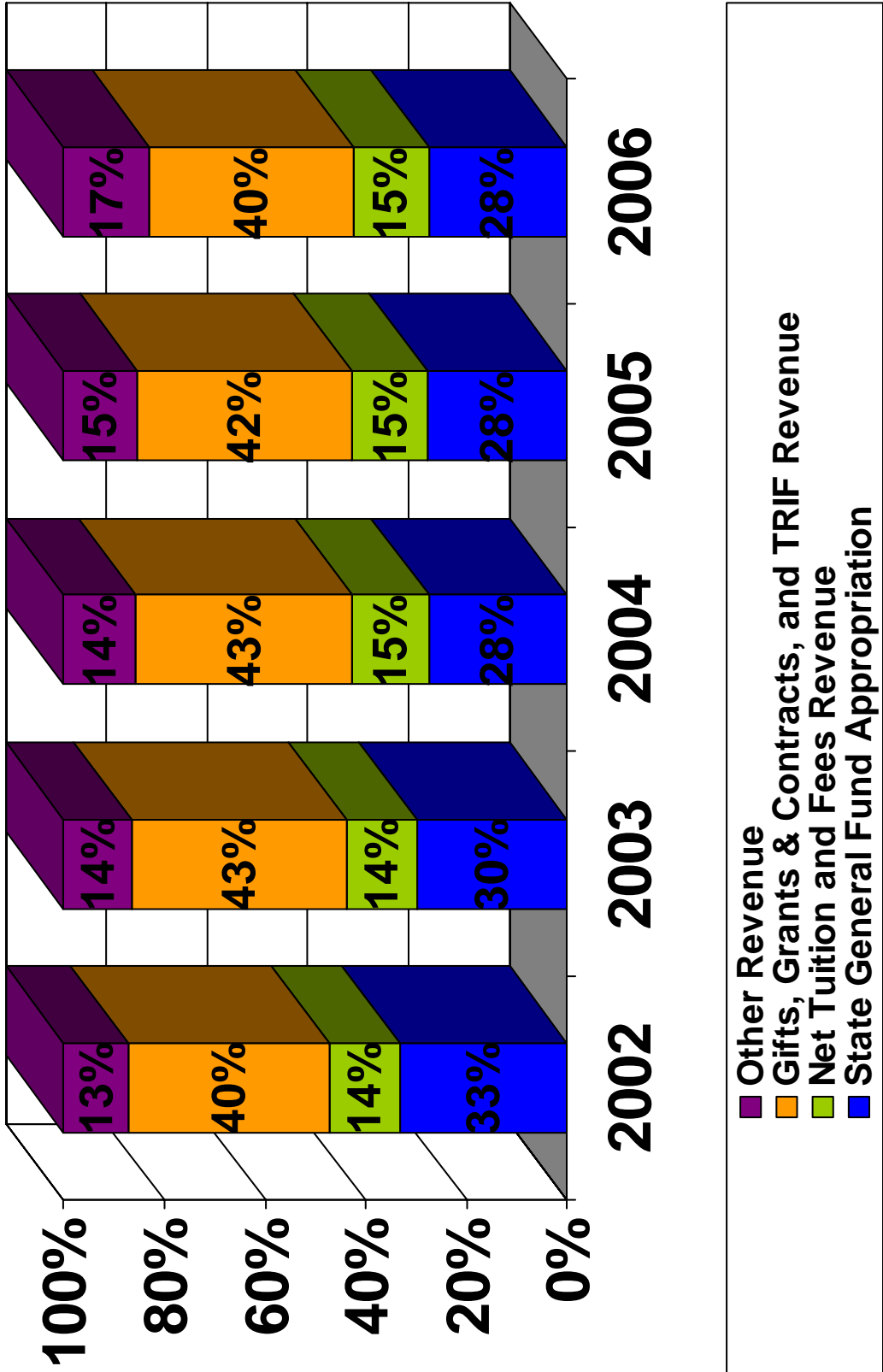


Other revenues primarily include auxiliary enterprises revenues and net investment income.

# The University of Arizona

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

Fiscal 2002 - 2006

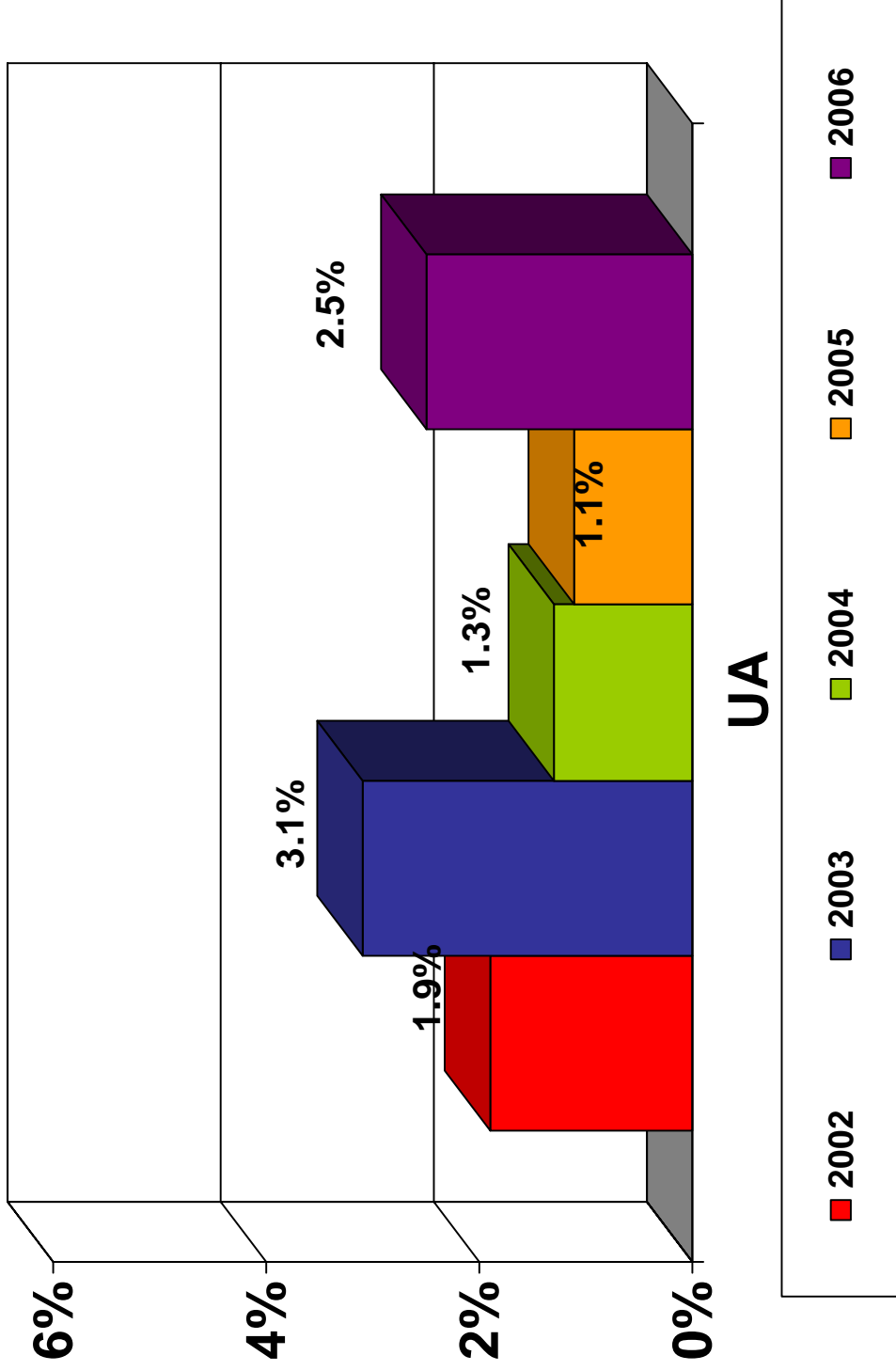


# The University of Arizona

## Net Revenues to Total Revenues (Ratio 5)

Fiscal Years 2002 - 2006

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



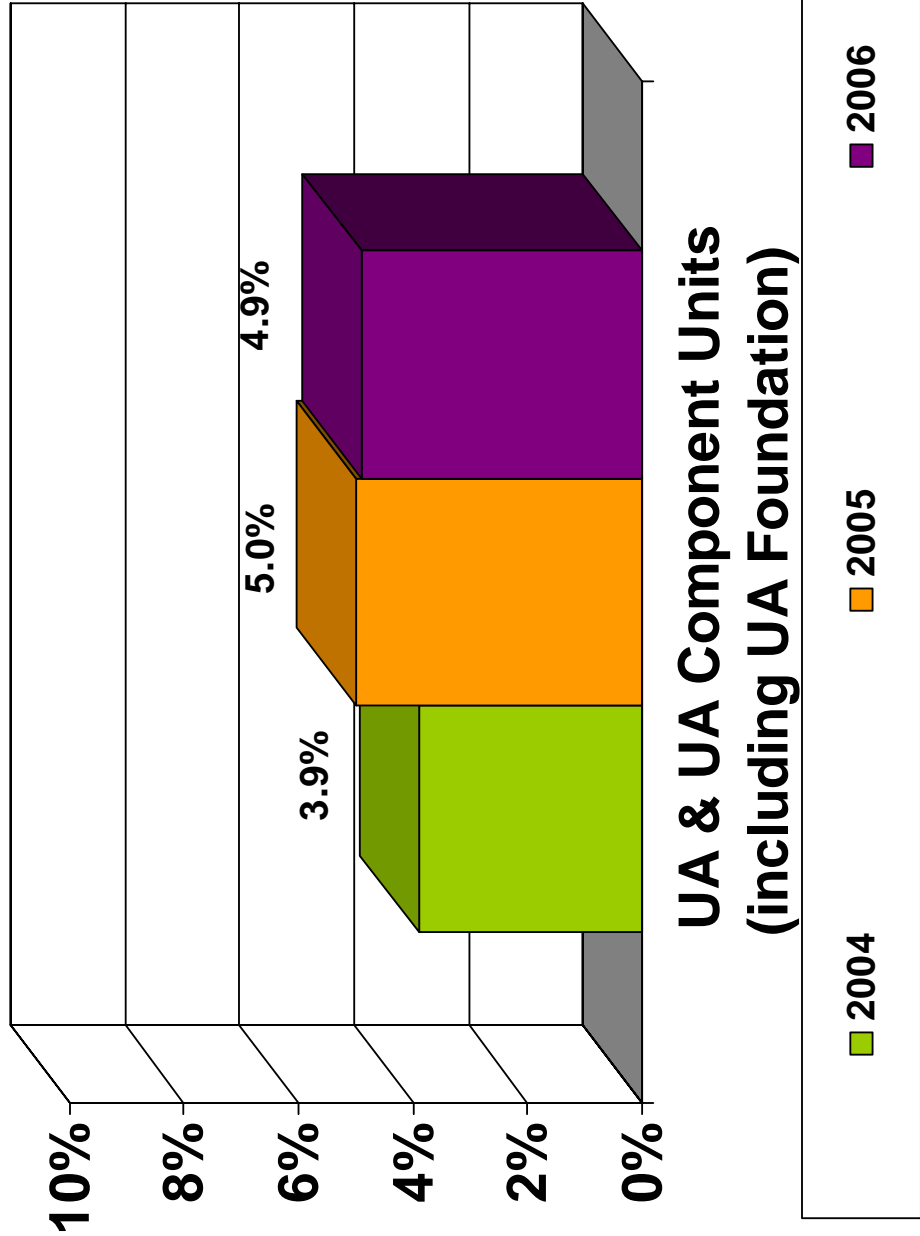
# UA & UA Component Units (including UA Foundation)

Graph 6

## Net Revenues to Total Revenues (Ratio 6)

Fiscal Years 2004 - 2006

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



Only 2004, 2005, and 2006 information is available.

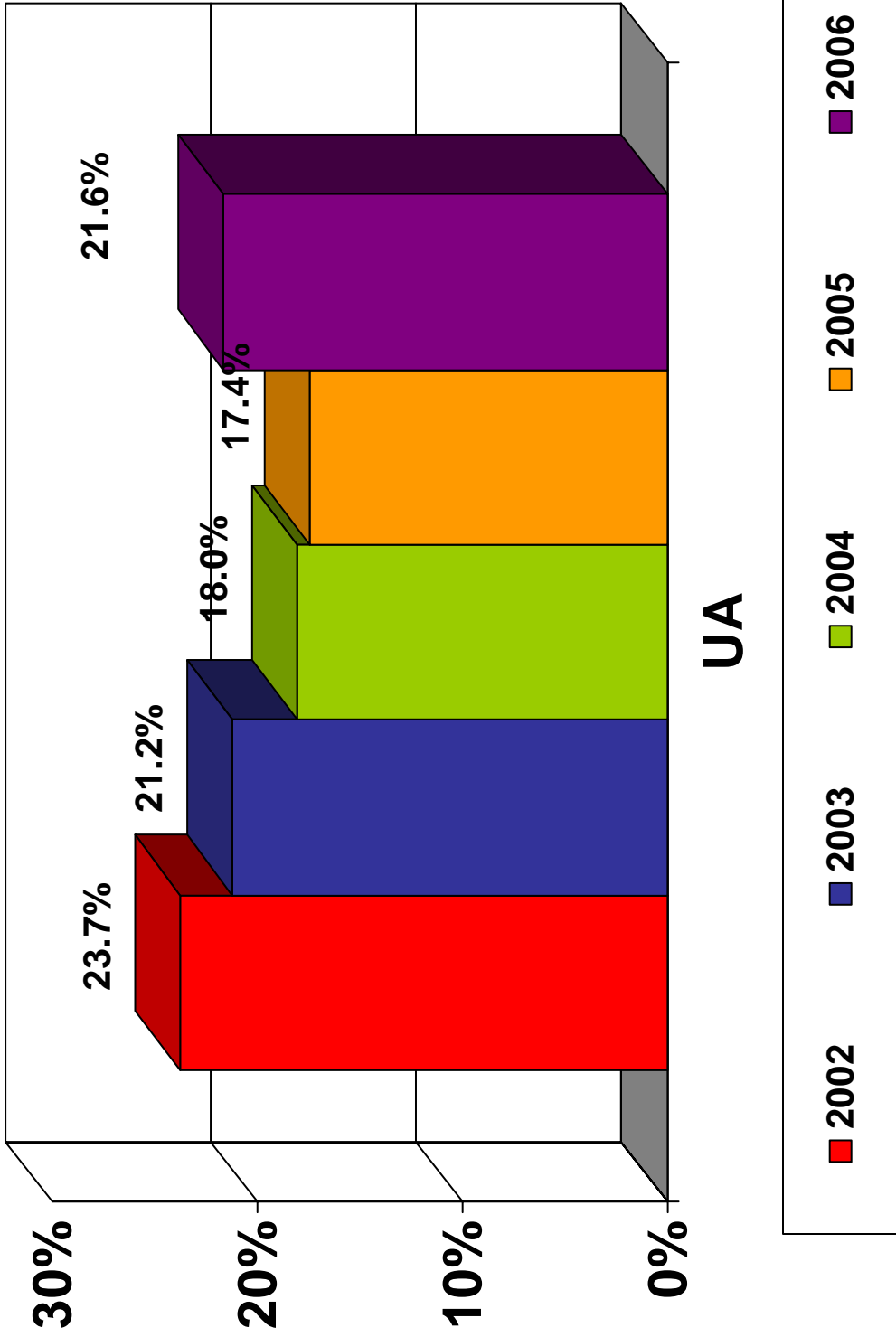
# The University of Arizona

Graph 7

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

Fiscal Years 2002 - 2006

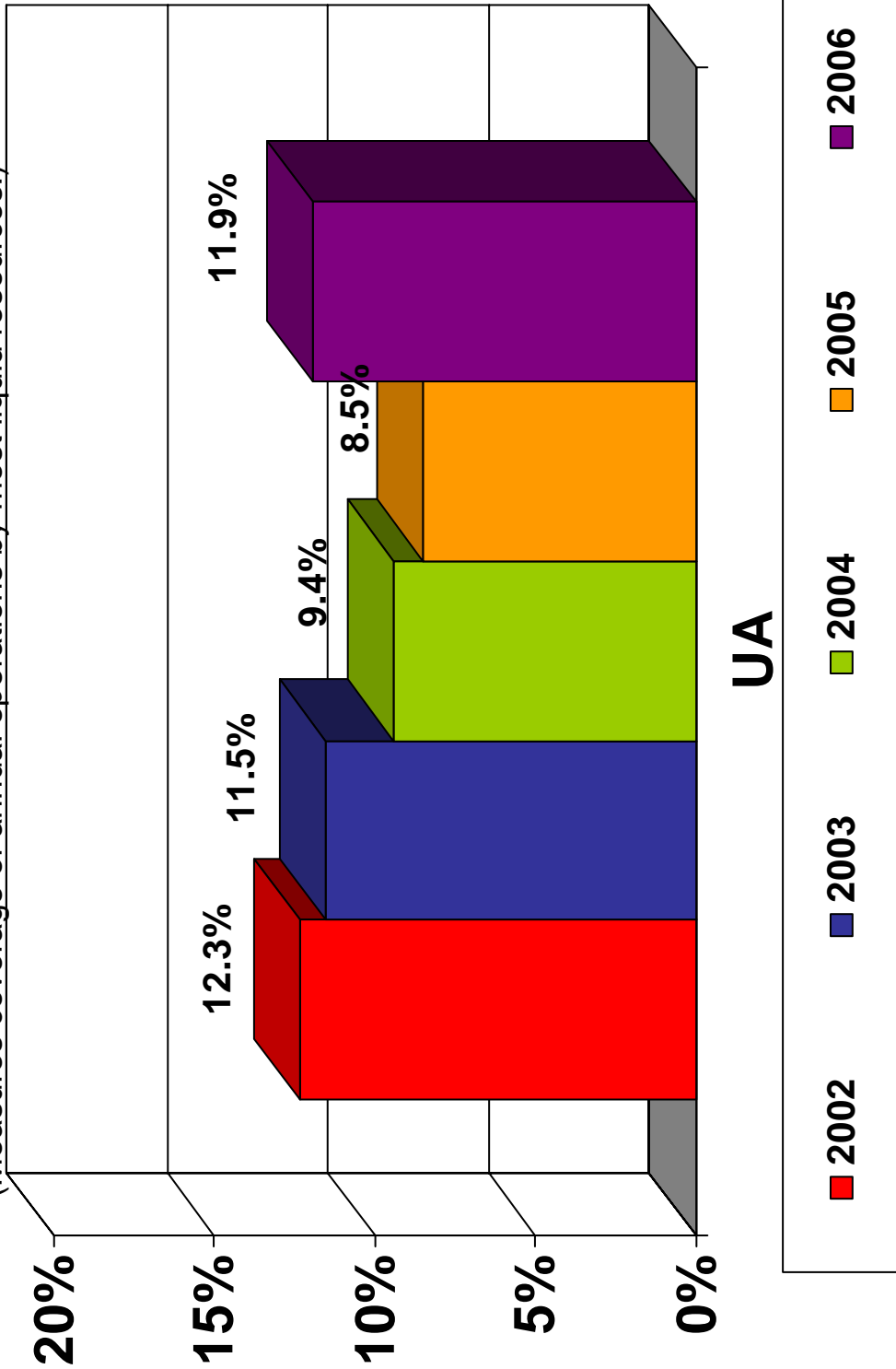
(Measures whether expendable net assets have kept pace with expenses.)



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

Fiscal Years 2002 - 2006

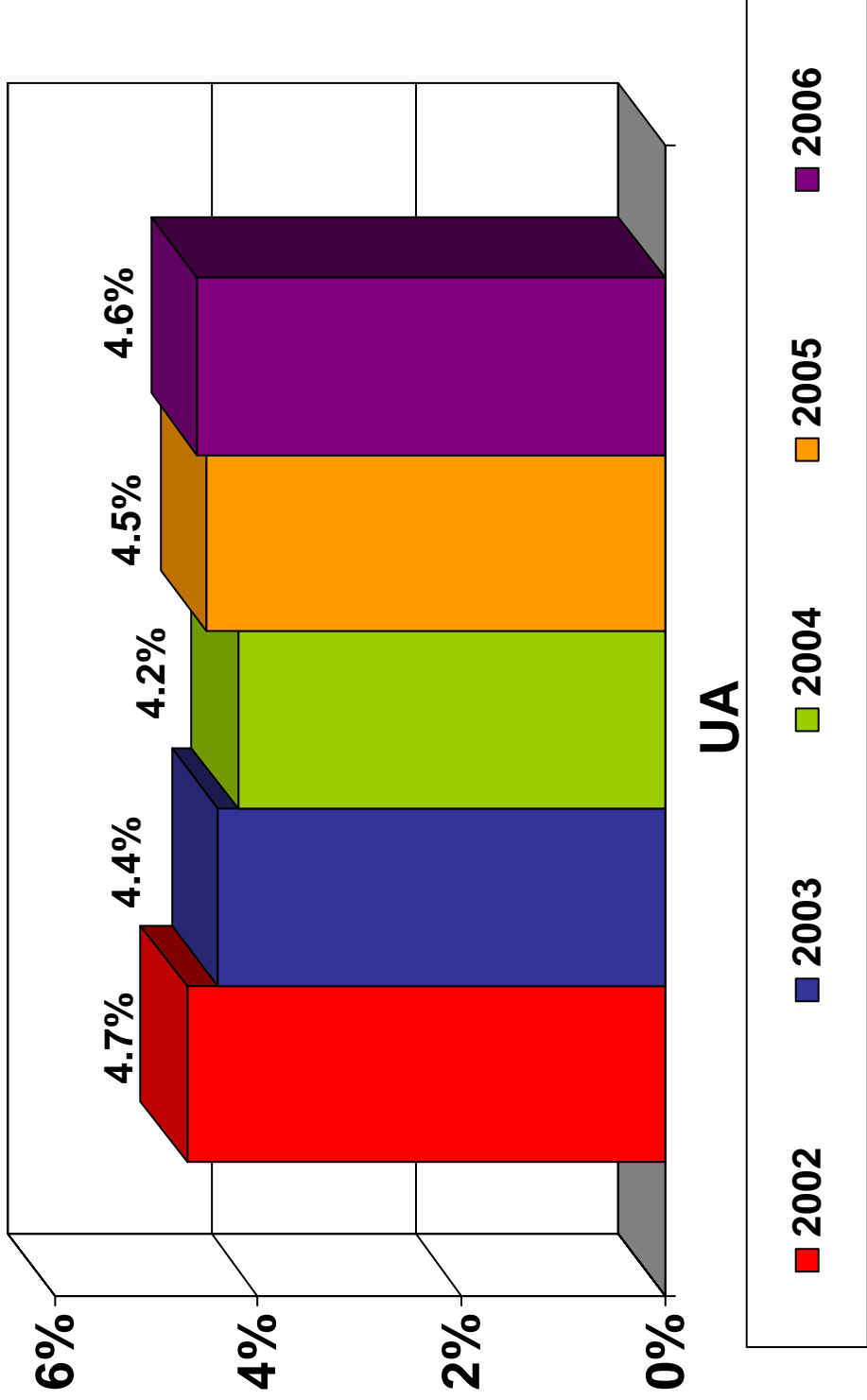
(Measures coverage of annual operations by most liquid resources.)



# The University of Arizona Debt Service Payments to Total Expenses (Ratio 9)

Fiscal Years 2002 - 2006

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



# UA & UA Component Units

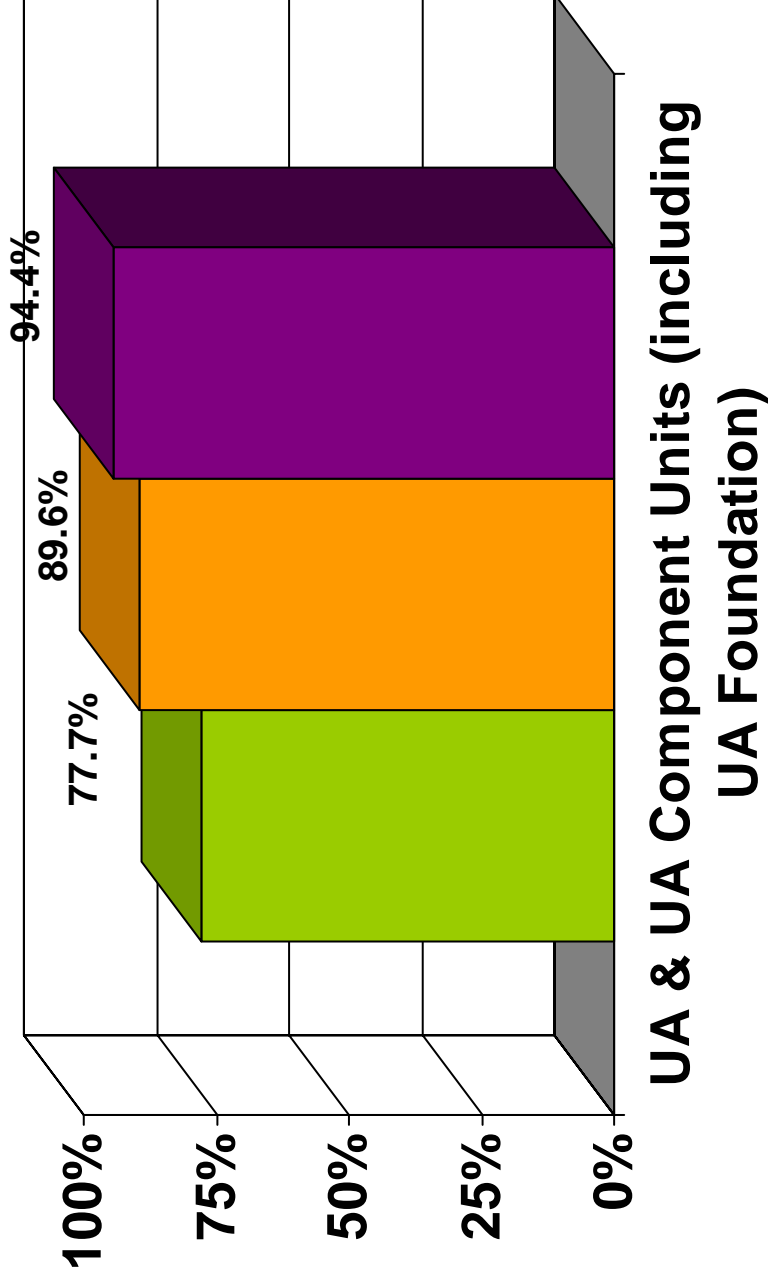
Graph 10

(including UA Foundation)

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

Fiscal Years 2004 - 2006

(Measures coverage of debt by all available resources.)



2004

2005

2006

UA Financial Services

Only 2004, 2005, and 2006 information is available.

