

FY 2008 ASSESSMENT OF FINANCIAL STRENGTH

OF

ARIZONA STATE UNIVERSITY

NORTHERN ARIZONA UNIVERSITY

THE UNIVERSITY OF ARIZONA



NORTHERN
ARIZONA
UNIVERSITY



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EXECUTIVE SUMMARY

The Arizona Board of Regents annually prepares an analysis of the financial condition of Arizona State University, Northern Arizona University, and The University of Arizona using data from the universities' audited financial statements. This FY 2008 Assessment of Financial Strength uses a new methodology developed by KPMG, BearingPoint, et al. and used by university governing boards and accreditation agencies across the country.

The methodology employs four financial ratios and a single indicator of financial health—the Composite Financial Index—and provides a scale against which to benchmark our universities. The analysis is for each university's entire enterprise, which includes their component units.

PRIMARY RESERVE RATIO

The Primary Reserve Ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable net assets (those assets that the university can access relatively quickly to satisfy its debt obligations) without relying on additional net assets generated by operations. ASU's ratio of 23% (12 weeks of spending), NAU's of 24% (12 weeks), and UA's of 32% (16.5 weeks) fall below the methodology's 40% (20 weeks) threshold for moderate financial health but are above the 10-15% potential problem range. This ratio has remained relatively stable for all three universities over the last five years. Factors contributing to this FY 2008 ratio include a decrease in net investment income due to the downturn in the financial markets, thus reducing net assets; and significant capital expansion programs using debt financing. A lower Primary Reserve Ratio is anticipated during such expansions.

FY 2007 benchmarking data (latest available data):

	Ratio	Peer Median	Rank of Peers*
ASU	34%	68%	13/16
NAU	24%	41%	9/11
UA	33%	68%	13/16

*ASU and UA report data for 15 peers; NAU reports data for 10 peers because data for other 5 peers was not available. Therefore, rankings are either for 15 peers plus ASU or UA or for 10 peers plus NAU.

RETURN ON NET ASSETS RATIO

The Return on Net Assets Ratio determines whether the institution is financially better off than in previous years by measuring total economic return. It provides the most comprehensive measure of the growth or decline in total wealth of an institution over a specific time. NAU's

ratio of 11% is well above the 6% threshold and approaches the 20% top score, demonstrating a strong commitment to balanced budgets along with an ability to respond to financial and budgetary changes. ASU's ratio of 2.5% and UA's of 4.6% were heavily impacted by the challenging financial market conditions in FY 2008 that resulted in decreased net investment income and, subsequently, smaller changes, albeit increases, in net assets.

FY 2007 benchmarking data (latest available data):

	Ratio	Peer Median	Rank of Peers
ASU	11%	12%	9/16
NAU	18%	10%	3/11
UA	10%	12%	11/16

NET OPERATING REVENUES RATIO

A positive Net Operating Revenues Ratio indicates that the institution experienced an operating surplus for the year. Generally speaking, the larger the surplus, the stronger the institution's financial performance as a result of the year's activities. A negative ratio indicates a loss for the year. NAU's FY 2008 Net Operating Revenues Ratio of 5.8% exceeds the methodology's 4% threshold, indicating that the university and its component units experienced an operating surplus for the year. NAU has recorded a positive Net Operating Revenues Ratio for five consecutive years, indicating strong revenue growth accompanied by strong spending controls. UA's ratio of 0.2% indicates a small operating surplus for FY 2008. ASU's -2.7% ratio reflects the university's operating loss and the decrease in the net assets of the component units, primarily resulting from the significant drop in investment income.

FY 2007 benchmarking data (latest available data):

	Ratio	Peer Median	Rank of Peers
ASU	0%	7%	15/16
NAU	7%	5%	5/11
UA	2.7%	8%	13/16

VIABILITY RATIO

The Viability Ratio measures one of the most basic determinants of clear financial health: the availability of expendable net assets to cover debt should the institution need to settle its obligations as of the financial statement date. Although a ratio of 100% or greater indicates that an institution has sufficient expendable net assets to satisfy debt obligations, this value should not serve as an objective. While there is no absolute threshold indicating whether the institution is no longer financially viable, the Viability Ratio, along with the Primary Reserve Ratio, can help define an institution's "margin for error."

ASU's ratio of 25%, NAU's of 28%, and UA's of 54%, while falling below the methodology's 125% threshold for moderate financial health, are not unexpected. All three universities and their component units have incurred significant debt for research infrastructure, student housing, and other capital projects. However, all three universities are "going concerns" and expect to receive additional revenues subsequent to June 30, 2008, including state appropriated debt service on research buildings. ASU receives state support for debt service for 35% of its outstanding long-term debt; NAU for 30%; and UA for 23%. This ongoing state support is not reflected in the universities' expendable net assets and, therefore, cannot be included in the calculation of this ratio. The Viability Ratio has remained relatively stable at all three universities over the last five years.

FY 2007 benchmarking data (latest available data):

	Ratio	Peer Median	Rank of Peers
ASU	38%	211%	15/16
NAU	29%	79%	10/11
UA	53%	201%	16/16

COMPOSITE FINANCIAL INDEX (CFI)

After looking at the relative strengths and weaknesses of each of the four core ratios, it is useful for an institution to be able to combine them into a single score. This combination, using a reasonable weighting plan, allows a weakness or strength in a specific ratio to be offset by another ratio result, thereby allowing a more holistic approach to understanding the total financial health of the institution. The Composite Financial Index (CFI) is useful in helping governing boards and senior management understand the financial position that the institution enjoys in the marketplace.

The CFI is one indicator of the financial health of an institution and must be combined with nonfinancial indicators such as enrollment growth, national recognition of academic and research programs, and construction of new facilities, in determining the overall health of the university. The CFI scale ranges from -1 to +10, a -1 indicating the need to assess the institutional ability to survive, and a +10 indicating the ability to deploy resources to achieve robust mission. NAU's FY 2008 CFI of 2.4, UA's of 1.8, and ASU's of 1.0 all fall on the lower end of the CFI scale. The CFI's for all three universities have fluctuated within a relatively narrow range over the last five years, indicating that in both good financial times and in bad, our universities fall rather low on this scale, necessitating analysts to look at other nonfinancial indicators of a university's overall health.

The methodology cautions against applying the CFI as a peer group measure as it is the combination of four ratios and the underlying reasons for differences may be indiscernible because of a number of possible variations. This differs from the four ratios which, analyzed

individually, could reveal a limited number of most likely reasons for differences. However, the methodology recommends analyzing the CFI over an extended period of time, at least five years, to effectively understand the financial direction of the institution. With this caveat, we provide this benchmarking data:

FY 2007 benchmarking data (latest available data):

	CFI	Peer Median	Rank of Peers
ASU	2.4	5.3	13/16
NAU	3.2	3.25	6/11
UA	2.6	5.0	13/16

COMMENTARY BY CAROL CAMPBELL

These ratios and CFI's are not unexpected for reasons presented by Carol Campbell, former ASU Executive Vice President and Chief Finance Officer, to the Board's Audit Committee during its January 22, 2009, meeting:

- Structural revenue deficits:
 - Low tuition as required by ABOR's current policy that resident undergraduate tuition cannot exceed the top of the lower one-third of a 50-state survey of senior institutions.
 - State General Fund instructional and capital support are well below national averages.
 - Our universities are young, Western universities lacking the endowments and legacy of financial stewardship among alumni of older Eastern and Midwestern universities.

- Structural expense deficits:
 - All long-term debt for capital constructions sits on the universities' financial statements. While the state will sometimes appropriate funds for debt service, the impact of this is higher expenses flowing through the universities servicing a far greater debt burden without the offsetting asset base. Our universities are striving to meet a growing enrollment demand while most of the nation enjoys stable enrollment.
 - With the exception of AFAT, no state-supported student financial aid, requiring our universities to use tuition and other revenues for financial aid.

- Structural operating margin deficit:
 - Despite the limited revenue base and mandatory funding of both facilities and financial aid as described above, our universities operate in a competitive national marketplace where the national academic pool, lab supplies, academic

journals, and other components of the Higher Education Price Index (HEPI) are the same as for all other universities. The historical annual increase in the HEPI averages about 1% higher than the CPI. This combination of factors puts intense pressure on operating margins, especially when enrollment increases must be absorbed.

- Looking ahead, deep cuts in state General Fund appropriations, combined with unprecedented endowment losses, present very challenging circumstances for our universities, who already have very little financial flexibility.

Carol Campbell's complete commentary is provided in Appendix A.

The Arizona University System FY 2008 Financial Ratio Analysis (the "traditional" analysis), presenting 10 ratios for the 7-year period FY 2002-FY 2008, is provided in Appendix B.

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INTRODUCTION

METHODOLOGY

This assessment of the financial strength of Arizona State University, Northern Arizona University, and The University of Arizona for the fiscal year ending June 30, 2008, is based on methodology presented in *Strategic Financial Analysis for Higher Education*, Sixth Edition, a project jointly developed and sponsored by Prager, Sealy & Co., LLC; KPMG LLP; and BearingPoint, Inc. This methodology is the continuation of work begun in the 1970's by Peat Marwick Mitchell & Co., predecessor to KPMG, and updated and refined over a period of almost 35 years. For our purposes, we will refer to this methodology as the "KPMG" methodology.

While the methodology is comprehensive, our analysis will focus on four ratios arising from the four questions under the overarching question, "What is the overall measurement of financial health?"

- **PRIMARY RESERVE RATIO:** Are resources sufficient and flexible enough to support the mission?
- **RETURN ON NET ASSETS RATIO:** Does asset performance and management support the strategic direction?
- **NET OPERATING REVENUES RATIO:** Do operating results indicate the institution is living within available resources?
- **VIABILITY RATIO:** Are financial resources, including debt, managed strategically to advance the mission?

These ratios will then be used to develop a **COMPOSITE FINANCIAL INDEX (CFI)** for each university. To quote from the KPMG methodology:

"Having one overall financial measurement of an institution helps governing boards and senior management understand the financial status of the institution. The Composite Financial Index (CFI) combines four core high-level ratios into a single score. This permits a strength or weakness in a specific ratio to be offset by another ratio, resulting in a more holistic approach to financial measurement. The CFI is best used as a component of financial goals of the strategic plan and should be calculated over a long time horizon, both historically and projected to the future."

LINKAGE TO 2020 VISION

2020 Vision, the Arizona University System’s long-term strategic plan, has four strategic goals:

- Educational Excellence
- Research Excellence
- Community Engagement and Workforce Impact
- Productivity

Strategies for achieving each of these goals have been developed by the universities, and metrics—key indicators—have been identified to measure progress toward each goal. While none of the four goals can be achieved in the absence of financial strength for each of our universities, this analysis will be done in the context of the Productivity goal. The Productivity component of 2020 Vision has two major components: (1) Producing greater numbers of degrees more efficiently, and (2) linking resources to strategic goals and objectives. A subset of the latter is an evaluation of the overall financial strength of the system and of each university. In this regard, 2020 Vision uses a key indicator, the Composite Financial Index (CFI), to assess this aspect. Again, to quote from the KPMG methodology:

“The CFI is useful in helping governing boards and senior management understand the financial position that the institution enjoys in the marketplace. Moreover, this measurement will also prove valuable in assessing future prospects of the institution, functioning as an ‘affordability index’ of a strategic plan.”

ATTRIBUTION

The explanations of the methodology contained in this document are summarized from *Strategic Financial Analysis for Higher Education*, Sixth Edition, 2005, Prager, Sealy & Co., LLC; KPMG LLP; and BearingPoint, Inc.

PRIMARY RESERVE RATIO

- Can resources be increased sufficiently in order to realize objectives?
- Does the institution need to reevaluate and perhaps modify its mission and priorities in light of its current and future resources?

The Primary Reserve Ratio is the key indicator for these specific questions. This indicator helps determine both whether there are sufficient resources and whether the net assets have enough flexibility. The formula for this ratio is:

$$\frac{\text{EXPENDABLE NET ASSETS (UNIVERSITY AND COMPONENT UNITS)}}{\text{TOTAL EXPENSES (UNIVERSITY AND COMPONENT UNITS)}}$$

The Primary Reserve Ratio measures the financial strength of the institution by comparing expendable net assets to total expenses. Expendable net assets represent those assets that the institution can access relatively quickly and spend to satisfy its debt obligations. This ratio provides a snapshot of financial strength and flexibility by indicating how long the institution could function using its expendable reserves without relying on additional net assets generated by operations. Trend analysis indicates whether an institution has increased its net worth in proportion to the rate of growth in its operating size.

It is reasonable to expect expendable net assets to increase at least in proportion to the rate of growth in operating size. If they do not, the same dollar amount of expendable net assets will provide a smaller margin of protection against adversity as the institution grows in dollar level of expenses. The trend of this ratio is important. A negative or decreasing trend over time indicates a weakening financial condition.

The Primary Reserve Ratio is useful from both an historical and a prospective review point. Historically, showing the relationship of expendable net assets to total expenses gives insight into whether the institution has been able to retain expendable resources at the same rate of growth as its commitments. Over time, total expenses demonstrate the impact of both inflation and programmatic changes on the institution. Once an item is part of the core spending pattern of the institution, it is, in many cases, difficult to change and therefore significantly reduces an institution's operating flexibility. From a prospective viewpoint, when applied to expected spending patterns, this ratio can help an institution understand the affordability of its strategic plan.

The Primary Reserve Ratio also serves as a counterpoint to the Viability Ratio presented later. An institution may have insignificant expendable net assets and little or no debt and therefore produce an acceptable value for the Viability Ratio. But low expendable net assets in relation to operating size signals a weak financial condition. In these cases, the Primary Reserve Ratio will be a much more valid measure of financial strength.

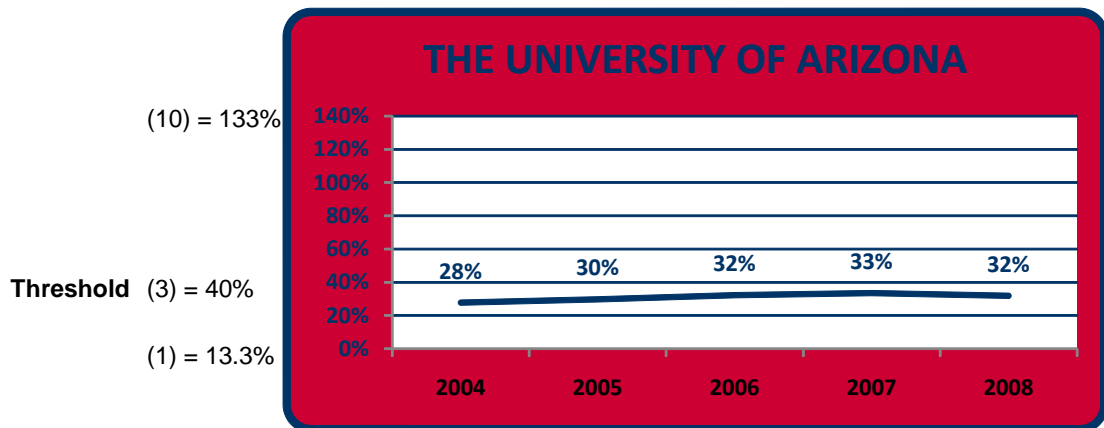
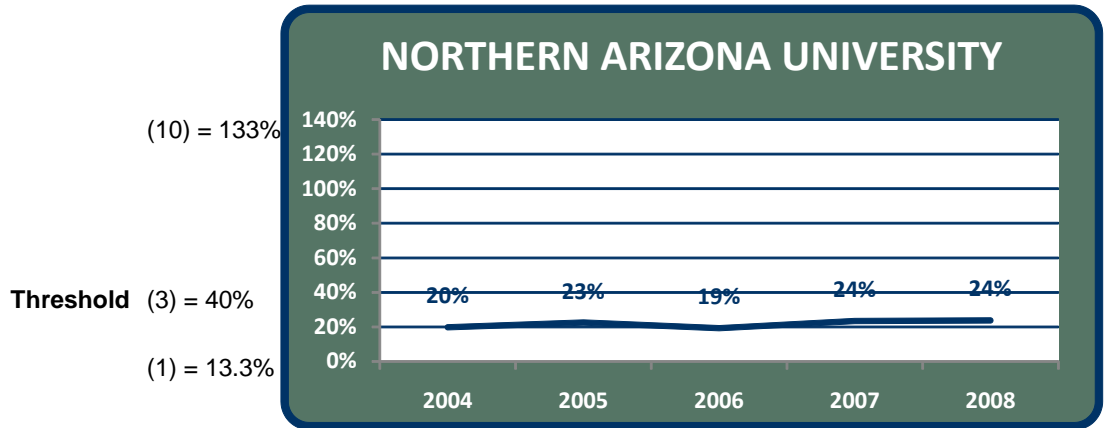
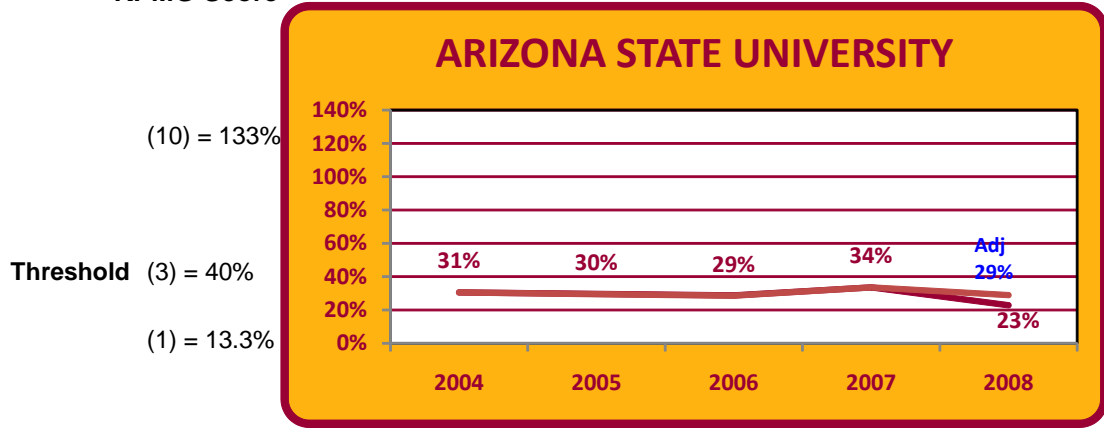
An analysis of financial statements suggests that a Primary Reserve Ratio of 40% or better is advisable to give institutions the flexibility to transform the enterprise. The implication of 40% is that the institution would have the ability to cover about 20 weeks of expenses (40% of 52 weeks) from reserves. Generally, institutions operating at this ratio level rely on internal cash flow to meet short-term cash needs, are able to carry on a reasonable level of facilities maintenance, and appear capable of managing modest unforeseen adverse financial events. Reserves are often required for capital expansion or to implement change in the institution's mission. Should these actions be in process, it would be appropriate to expect a temporary decline in this ratio. A ratio below 10% to 15% indicates that the institution's expendable net asset balances are in a position that generally requires short-term borrowing on a regular basis, since resources cover only 1 to 2 months of expenses, and that the institution tends to struggle to have sufficient resources for reinvestment. In addition, institutions with a low Primary Reserve Ratio generally lack sufficient resources for strategic initiatives and may have less operating flexibility.

The Primary Reserve Ratios for Arizona State University, Northern Arizona University, and The University of Arizona, along with each university's analysis, are presented on the next two facing pages.

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PRIMARY RESERVE RATIO

KPMG Score



- (1) = Very little financial health.
- (3) = Threshold; moderate financial health.
- (10) = Top score within range.

PRIMARY RESERVE RATIO

ASU BULLET ANALYSIS

- ASU's FY 2008 Primary Reserve Ratio of 22.8% indicates that at June 30, 2008, the university and its component units had approximately 12 weeks of annual spending available from year-end expendable balances. This ratio has remained relatively stable over the 5 years reported. ASU's ratio indicates adequate financial strength and flexibility and is above the problem range.
- ASU and its component units experienced an approximately \$80 million decrease in net investment income between FY 2007 and FY 2008, which reduced available net assets.
- Also in FY 2008 ASU experienced a temporary decrease in unrestricted net assets which was largely abated in early FY 2009 when \$104 million of financing was issued for the already completed Polytechnic Academic Complex. Had this financing been issued by the end of FY 2008, rather than the beginning of FY 2009, this ratio would have been approximately 29%.

NAU BULLET ANALYSIS

- NAU's FY 2008 Primary Reserve Ratio of 23.8% indicates that at June 30, 2008, the university and its component units had approximately 12 weeks of annual spending available from year-end expendable balances.
- While not achieving the 40% threshold (representing 20 weeks of annual spending in year-end expendable balances), NAU's ratio indicates adequate financial strength and flexibility and is above the 10% to 15% potential problem range.
- NAU engaged in significant capital expansion over the past 5 years, adding research infrastructure and other new facilities including student housing and dining, all with related furniture, fixtures, and equipment needs. These capital improvements significantly increased NAU's long-term debt. A lower Primary Reserve Ratio during such an expansion period would be expected.
- The Primary Reserve Ratio has remained stable over the past 5 years.

UA BULLET ANALYSIS

- UA's FY 2008 Primary Reserve Ratio of 31.8% indicates that at June 30, 2008, the university and its component units had approximately 16.5 weeks of annual spending available from year-end expendable balances.
- While not achieving the 40% threshold (representing 20 weeks of annual spending in year-end expendable balances), UA's ratio indicates adequate financial strength and flexibility and is above the 10% to 15% potential problem range.
- UA engaged in major capital development projects over the past 5 years, increasing research infrastructure and other new amenities which included a Student Union, housing, and parking. These capital improvements notably increased UA's long-term debt. During such expansion, it would be anticipated that these improvements would result in a lower Primary Reserve Ratio.
- The Primary Reserve Ratio has remained stable over the past 5 years, fluctuating in the range of 28% to 33%.

RETURN ON NET ASSETS RATIO

The Return on Net Assets Ratio determines whether the institution is financially better off than in previous years by measuring total economic return. This ratio furnishes a broad measure of the change in an institution's total wealth over a single year and is based on the level and change in total net assets, regardless of asset classification. Thus, the ratio provides the most comprehensive measure of the growth or decline in total wealth of an institution over a specific period of time. The formula for this ratio is:

$$\frac{\text{CHANGE IN NET ASSETS (UNIVERSITY AND COMPONENT UNITS)}}{\text{TOTAL NET ASSETS (UNIVERSITY AND COMPONENT UNITS)}}$$

A decline in this ratio may be appropriate and even warranted if it reflects a strategy to better fulfill the institution's mission. On the other hand, an improving trend in this ratio indicates that the institution is increasing its net assets and is likely to be able to set aside financial resources to strengthen its future financial flexibility.

The Return on Net Assets Ratio, like all the others, is better applied over an extended period so that the results of long-term plans are measured. Long-term returns are quite volatile and vary significantly based on the prevailing level of inflation in the economy. Therefore, establishing fixed nominal return targets is not possible. Rather, institutions should establish a real rate of return target in the range of approximately 3-4 percent. The real return plus the actual inflation index, either the Consumer Price Index (CPI) or the Higher Education Price Index (HEPI), will produce the nominal rate of return. A useful proxy to measure changes specific to an institution from the impact of both inflation and programmatic commitments may be the growth of total expenses over a long period of time. However, as with each ratio, there are no absolute measures. For example, if an institution's strategic plan calls for activities that will consume substantial resources, such as program expansion, a high return on net assets may be required in order to maintain a properly capitalized institution.

Because the Return on Net Assets Ratio is affected by a number of potentially volatile items, it is important that the institution understand the causes of the change in this ratio from year to year. If, for example, large investment returns or nonrecurring gains are providing a substantial percentage of the increase in net assets, any market correction could have negative implications, possibly impacting program financing.

It is important that an institution project this ratio under various future assumptions. In years of high investment returns, net assets can increase substantially over the short term, thereby improving the ratio. However, positive external developments may imply that an institution has the capacity to defer cost-reducing activities or postpone necessary adjustments to tuition levels. Then, when market conditions become relatively flat or turn negative, the institution could find its financial performance inadequate. If so, an extended period may be spent attempting to recover, possibly at the expense of necessary programmatic initiatives.

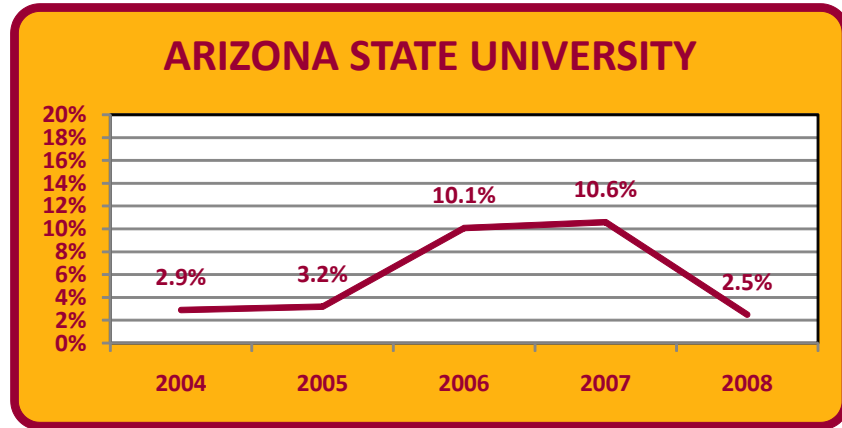
For institutions with sizable investments, it is advisable to smooth the results of this ratio by looking at Return on Net Assets over time, for example, 5-10 years. Changes in market performance can also significantly impact the numerator of this ratio from year to year. For this reason, each institution will need to set its own goal for this ratio.

The Return on Net Assets Ratios for Arizona State University, Northern Arizona University, and The University of Arizona, along with each university's analysis, are presented on the next two facing pages.

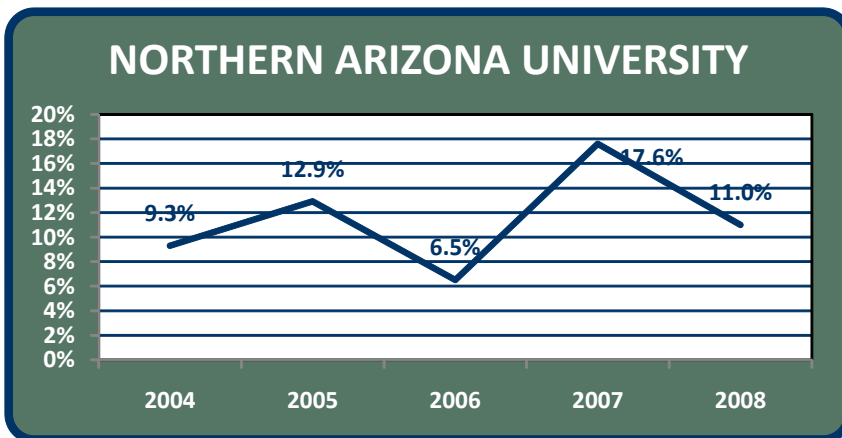
RETURN ON NET ASSETS RATIO

KPMG Score

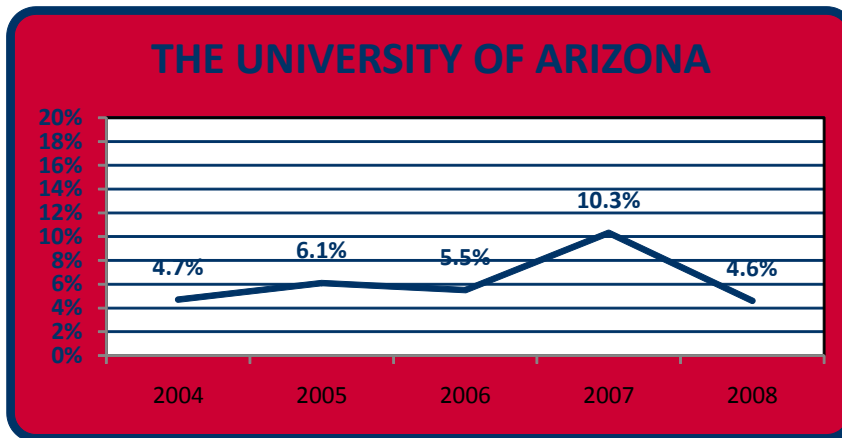
(10) = 20%
 Threshold (3) = 6%
 (1) = 2%



(10) = 20%
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(10) = 20%
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- (1) = Very little financial health.
- (3) = Threshold; moderate financial health.
- (10) = Top score within range.

RETURN ON NET ASSETS RATIO

ASU BULLET ANALYSIS

- ASU's Return on Net Assets Ratio of 2.5% was impacted by the decrease in net assets of the university and its component units due to the challenging financial market conditions experienced in FY 2008, which resulted in decreased net investment income and, subsequently, a lower but still positive change in net assets.
- The combined ASU and component units increase in net assets in FY 2008 was \$37 million, compared to \$153 million in FY 2007.
- Given the budgetary concerns of the state of Arizona, and investment market conditions, no marked increase in this ratio is anticipated in the next several years.

NAU BULLET ANALYSIS

- NAU's FY 2008 Return on Net Assets Ratio is 11%, well above the 6% threshold. This is lower than the prior year ratio of 17.6% due to lower returns on investment at the NAU Foundation. The university alone had a \$30.5 million increase in net assets for FY 2008.
- NAU has steadily increased its net assets over the 5-year period FY 2004-2008, demonstrating a strategic direction of budget controls and building reserves.
- The university has demonstrated a strong commitment to balanced budgets and the ability to respond to financial and budgetary changes over an extended period of time.

UA BULLET ANALYSIS

- UA's FY 2008 Return on Net Assets Ratio is 4.6%, below the 6% threshold. This is lower than the prior year ratio of 10.3% due to lower investment returns in FY 2008.
- UA has remained vigilant in its monitoring of institutional revenues and expenses to ensure that it remains consistent in operating within available resources. This stewardship has demonstrated increases in net assets over the past 5 years.
- Given the significant budgetary constraints and the existing market conditions, UA's management may not be able to continue this trend and may have to use fund balances to cover operational expenditures.

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NET OPERATING REVENUES RATIO

The Net Operating Revenues Ratio is a primary indicator, explaining how the surplus from operating activities affects the behavior of the other three core ratios. A large surplus or deficit directly impacts the amount of funds an institution adds to or subtracts from net assets, thereby affecting the Primary Reserve Ratio, the Return on Net Assets Ratio, and the Viability Ratio. The formula for this ratio is:

$$\frac{\text{OPERATING INCOME (LOSS) + NET NONOPERATING REVENUES (EXPENSES) + COMPONENT UNIT CHANGE IN UNRESTRICTED NET ASSETS}}{\text{OPERATING REVENUES + NONOPERATING REVENUES + COMPONENT UNIT TOTAL UNRESTRICTED REVENUE}}$$

A positive Net Operating Revenues Ratio indicates that the institution experienced an operating surplus for the year. Generally speaking, the larger the surplus, the stronger the institution's financial performance as a result of the year's activities. However, as a note of caution, if surpluses are obtained by underspending on mission-critical investments, then the surplus achieved should be questioned. A negative ratio indicates a loss for the year. A small deficit in a particular year may be relatively unimportant if the institution is financially strong, is aware of the causes of the deficit, and has an active plan in place that cures the deficit.

Large deficits and structural deficits are almost always a bad sign, particularly if management has not identified initiatives to reverse the shortfall. A pattern of large deficits can quickly sap an institution's financial strength to the point where it may have to make major adjustments to programs. A continuing decline or a pattern of deficits is a warning signal that management and the governing board should focus on restructuring the institution's income and expense streams to return to an acceptable Net Operating Revenues Ratio.

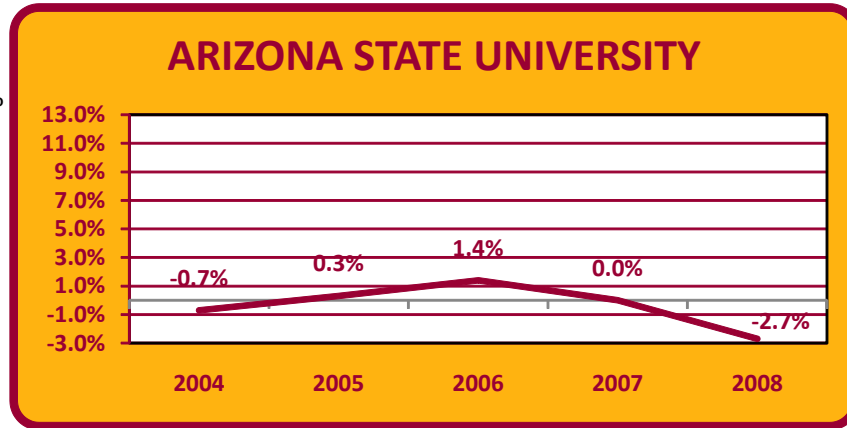
A key for institutions establishing a benchmark for this ratio would first be the anticipated institutional growth in total expenses. A ratio in the 2 to 4 percent range may appear somewhat low. However, the determination of net operating revenues includes depreciation expense as a component, indicating that a positive return in this area would suggest the institution lived within its means.

The Net Operating Revenues Ratios for Arizona State University, Northern Arizona University, and The University of Arizona, along with each university's analysis, are presented on the next two facing pages.

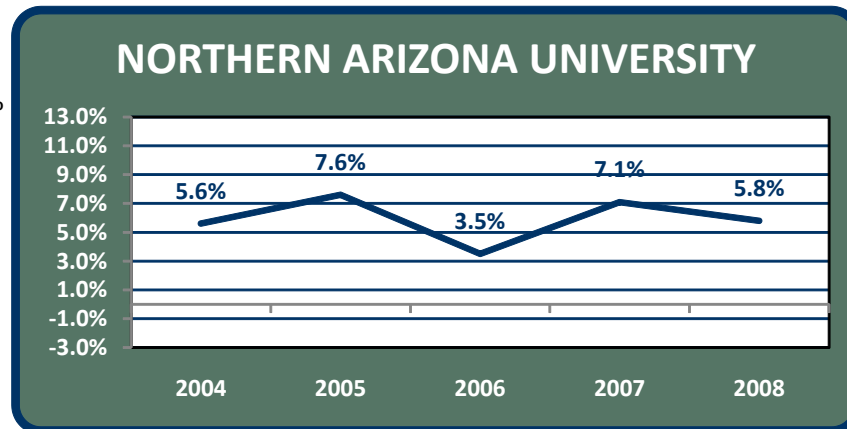
NET OPERATING REVENUES RATIO

KPMG Score

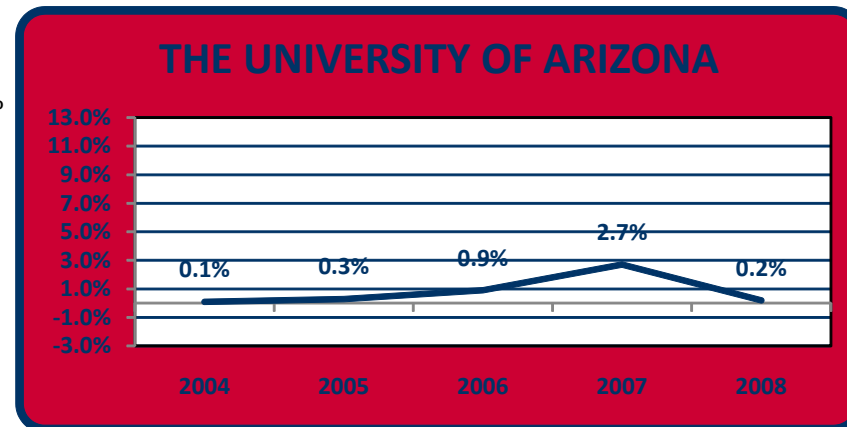
(10) = 13%
Threshold (3) = 4%
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(10) = 13%
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1 = Very little financial health.
 3 = Threshold; moderate financial health.
 10 = Top score within range.

NET OPERATING REVENUES RATIO

ASU BULLET ANALYSIS

- ASU's FY 2008 Net Operating Revenues Ratio of -2.7% was impacted by the decrease in net investment income between FY 2007 and FY 2008. This impacted both ASU's net nonoperating revenues and the change in unrestricted net assets for the component units (primarily the ASU Foundation).
- The Net Operating Revenues Ratio is slightly negative in FY 2008 due to the negative change in unrestricted net assets for the component units, as well as the operating loss for the university which slightly exceeded the positive net nonoperating revenues.
- ASU has not had a pattern of ongoing deficits in this ratio. Such a pattern of sustained deficits could indicate the need for more focus on revenue and expense streams.

NAU BULLET ANALYSIS

- NAU's FY 2008 Net Operating Revenues Ratio is 5.8%, indicating that the university and its component units experienced an operating surplus for the period (total revenues from all sources exceeded total expenses). This ratio exceeds the 4% threshold.
- NAU has recorded a positive Net Operating Revenues Ratio for 5 consecutive years, indicating strong revenue growth accompanied by strong spending controls. This reflects good management of budget and fiscal operations and demonstrates that the university is living within its means.

UA BULLET ANALYSIS

- UA's FY 2008 Net Operating Revenues Ratio is 0.2%, validating that the university experienced an operating surplus. This ratio could be negatively impacted in FY 2009 by budget rescissions if management does not have the appropriate time to adjust for them.
- For the past 5 years, revenue has continuously increased. As a result, UA has experienced a positive Net Operating Revenues Ratio. This confirms the university's stewardship and dedication to suitable expenditure control and oversight.

VIABILITY RATIO

The Viability Ratio measures one of the most basic determinants of clear financial health: the availability of expendable net assets to cover debt should the institution need to settle its obligations as of the balance sheet date. The formula for this ratio is:

$$\frac{\text{EXPENDABLE NET ASSETS (UNIVERSITY AND COMPONENT UNITS)}}{\text{LONG-TERM DEBT (PROJECT RELATED) (UNIVERSITY AND COMPONENT UNITS)}}$$

The denominator is defined as all amounts borrowed for long-term purposes from third parties and includes all notes, bonds, and capital leases payable that impact the institution's credit, whether or not the institution directly owes the obligation. Long-term debt includes both the current and long-term portions. This would include debt of the institution's affiliated foundations, partnerships, and other special-purpose entities. It would also include amounts owed to a system or state-financing agency as it represents debt issued on the institution's behalf.

Although a ratio of 100% or greater indicates that, as of the balance sheet date, an institution has sufficient expendable net assets to satisfy debt obligations, this value should not serve as an objective. Many public institutions can operate effectively at a ratio far less than 100%, partially because the ongoing benefit of state support is not reflected in the institution's expendable net assets. Institutions with a ratio of less than 100% are, similar to those with a low Primary Reserve Ratio, less self-reliant and have significantly less operating flexibility but can function, and often function well.

The level that is "right" for the Viability Ratio is institution specific; the institution should develop a target for this ratio and others that balances its financial, operating, and programmatic objectives.

There is no absolute threshold that will indicate whether the institution is no longer financially viable. However, the Viability Ratio, along with the Primary Reserve Ratio, can help define an institution's "margin for error." As the Viability Ratio's value falls below 100%, an institution's ability to respond to adverse conditions from internal resources diminishes, as does its ability to attract capital from external sources and its flexibility to fund new objectives. If an institution is in the middle of a major capital expansion program, this ratio may well fall to a lower level than an institution that is not. However, all institutions will have limits on how much debt is affordable; establishing targets and thresholds specific to the institution will be helpful in guiding decisions on affordability of debt.

In addition, most debt relating to plant assets is long term and does not have to be paid off at once. Payments of other liabilities may similarly be delayed. Analysts should be aware that institutions often show a remarkable resiliency that permits them to continue long beyond what appears to be their point of financial collapse. In fact, institutions have been known to survive for a time with high debt levels and no expendable net assets—or even negative net

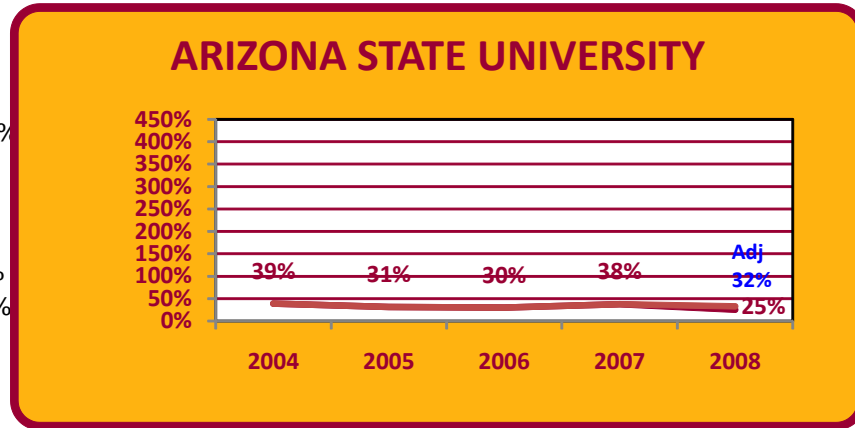
asset balances. Frequently, this means living with no margin for error and meeting severe cash flow needs by obtaining short-term loans.

The Viability Ratios for Arizona State University, Northern Arizona University, and The University of Arizona, along with each university's analysis, are presented on the next two facing pages.

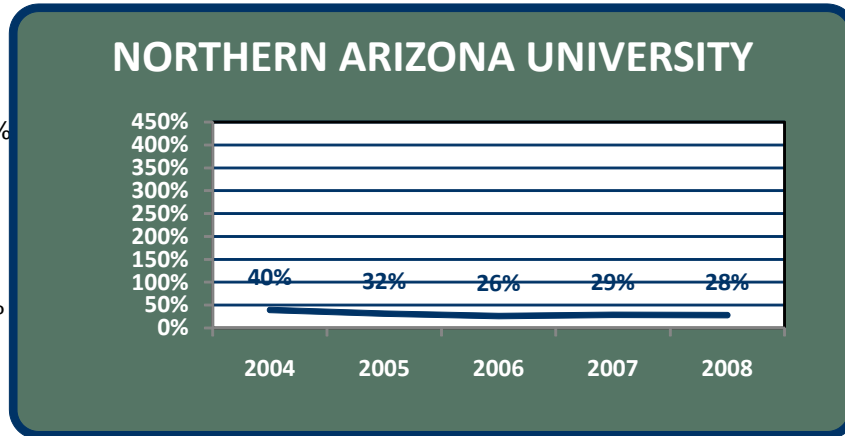
VIABILITY RATIO

KPMG Score

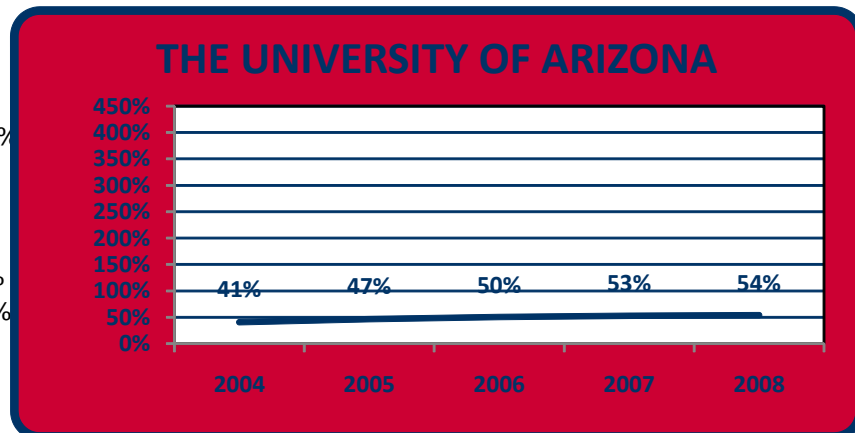
(10) = 416%
 Threshold (3) = 125%
 (1) = 41.7%



(10) = 416%
 Threshold (3) = 125%
 (1) = 41.7%



(10) = 416%
 Threshold (3) = 125%
 (1) = 41.7%



- 1 = Very little financial health.
- 3 = Threshold; moderate financial health.
- 10 = Top score within range.

VIABILITY RATIO

ASU BULLET ANALYSIS

- ASU's FY 2008 Viability Ratio of 24.8% reflects the significant debt recently incurred by ASU and its component units for research infrastructure and student housing. A ratio of 100% would indicate the ability to satisfy all debt obligations at June 30, 2008. It is unlikely the university would ever be required to make debt repayments over a shorter time span than the current repayment schedule.
- In FY 2008 this ratio was impacted by the substantial temporary decrease in unrestricted net assets (due to the delayed financing of the Polytechnic Academic Complex), as well as the increase in overall long-term debt of the component units related to the Downtown Phoenix Housing complex. Had the Polytechnic Academic Complex financing been issued in FY 2008, this ratio would have been approximately 31.5% for FY 2008, compared to 37.6% for FY 2007.
- Approximately \$268 million of ASU's capital debt outstanding at June 30, 2008, is financed by a separate research infrastructure appropriation or by a share of state sales tax specifically identified for this purpose. This represents approximately 35% of ASU's debt. This ongoing support from the state is not reflected in the university's expendable net assets, and therefore is not included in this ratio.

NAU BULLET ANALYSIS

- NAU's FY 2008 Viability Ratio of 28.4% reflects the significant debt that the university incurred over the past years for its capital expansion.
- This ratio means that at June 30, 2008, NAU had Expendable Net Assets sufficient to pay 28.4% of its long-term debt. A ratio of 100% would indicate the ability to satisfy all debt obligations at June 30, 2008, but should not serve as an objective.
- NAU's Viability Ratio is offset by the fact that the university receives 40% of its total annual revenues from state General Fund appropriations. NAU's Viability Ratio is further offset by state support for debt service on the \$88 million of research infrastructure debt that represents 30% of the university's total long-term debt.

UA BULLET ANALYSIS

- UA's FY 2008 Viability Ratio of 54% reflects the significant debt that the university incurred over the past years for its capital expansion but is counterbalanced by revenues from State General Fund Appropriations, which represent 29% of total annual revenues. As the amount of long-term debt has increased, the university's expendable net assets have increased at a faster pace, improving the Viability Ratio.
- This ratio indicates that at June 30, 2008, UA had sufficient Expendable Net Assets to cover 54% of its long-term debt. An optimal ratio of 100% would indicate the ability to satisfy all debt obligations at June 30, 2008.
- UA receives State debt service support for \$193 million, or 23%, of its total outstanding debt.

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COMPOSITE FINANCIAL INDEX (CFI)

After looking at the relative strengths and weaknesses of each of the four core ratios, it is useful for an institution to be able to combine them into a single score. This combination, using a reasonable weighting plan, allows a weakness or strength in a specific ratio to be offset by another ratio result, thereby allowing a more holistic approach to understanding the total financial health of the institution.

The Composite Financial Index (CFI) is useful in helping governing boards and senior management understand the financial position that the institution enjoys in the marketplace. Moreover, this measurement will also prove valuable in assessing future prospects of the institution, functioning as an “affordability index” of a strategic plan. The KPMG methodology has been adopted by many leading institutions and has found great acceptance by senior management and governing boards. It is a valuable tool for senior managers and boards to help understand not only the state of an institution’s financial situation at a point in time but also serve as a valuable tool that can provide insight into the trends of an institution’s key financial indicators.

KPMG recommends that each institution develop the CFI that is tailored to the institutional needs and then apply it over an extended period of time—both historically and as a planning tool as the institution develops a prioritized and priced strategic plan. By tailoring the CFI in this way, the institution will have insight into the financial impact of different activities.

As an example, if an institution has just completed a significant investment in new facilities with a significant debt component, the expectation that both the CFI and the Viability Ratio will be depressed is reasonable. Similarly, if the institution has recently completed a major capital campaign, the CFI may well have improved, and the governing board and senior management have the opportunity to consider whether the amount of the increase matched overall expectations.

As with any financial analysis, KPMG believes a long period of time, at least 5 years, represents enough measurement points to effectively understand the financial direction of the institution. They also believe that once developed, the schema should be fixed; and if there is a compelling reason for a change, that all information be restated so that comparative data is consistent. However, the weighting should not be revised as a response to changes or deterioration in certain financial indicators but should only be done if the institution’s financial or programmatic objectives have fundamentally changed over the long term.

KPMG has also found, however, that applying the CFI as a peer group measure has some limitations. This is different from the comparison of an individual ratio, where senior managers of an institution believe they have the capability to understand the action to take if an individual ratio is different from another institution. This relates to the fact that there are a limited number of most likely reasons for movement in a selected ratio. However, when the

ratios are combined, the underlying reasons for change may be indiscernible because of the number of possible variations.

The weightings used for each ratio in the CFI calculation represent what KPMG believes is an appropriate assessment of the relative importance of each ratio and a reasonable assessment of balance between an institution’s short- and long-term needs. However, weighting of the ratios becomes the key variable that would reflect differences in institutional philosophy and approach to financial planning.

Under the KPMG methodology, the 4 ratios are weighted as follows in calculating the CFI:

RATIO	WEIGHTING IN CFI
Primary Reserve	35%
Return on Net Assets	20%
Net Operating Revenues	10%
Viability Ratio	35%

The four-step methodology is as follows:

- Compute the values of the four core ratios;
- Convert these figures to strength factors along a common scale;
- Multiply the strength factors by specific weighting factors; and
- Total the resulting four numbers to reach the single CFI score.

The CFI measures only the financial component of an institution’s well-being. It must be analyzed in context with other associated activities and plans to achieve an assessment of the overall health, not just financial health, of the institution. As an example, if two institutions have identical CFI scores but one requires substantial investments to meet its mission-critical issues and the other has already made those investments, the first institution is less healthy than the second. In fact, an institution’s CFI can become too high as well as too low. When put in the context of achievement of mission, a very high CFI with little achievement of mission may indicate a failing institution.

The scale accompanying the CFI graphs presented on page 24 is KPMG’s scale for charting CFI performance. These CFI scores do not have absolute precision. They are indicators of ranges of financial health that can be indicators of overall institutional well-being, when combined with nonfinancial indicators. This would be consistent with the fact that there are a large number of variables that can impact an institution and influence the results of these ratios. However, the ranges do have enough precision to be indicators of the institutional financial health; and the CFI as well as its trend line, over a period of time, can be the single most important measure of the financial health for the institution.

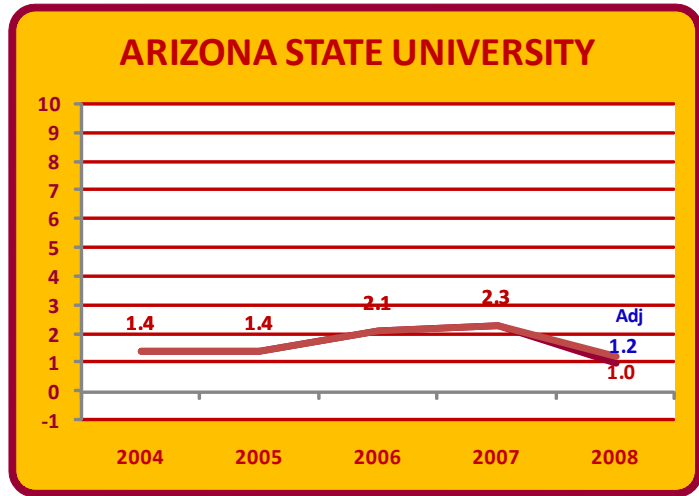
The overlapping of the scores on the CFI scale represents the ranges of measurement that an institution may find useful in assessing itself. There is little discernible difference between the financial position of an institution with a 3.3 or one with a 3.4 CFI. In this case, the nonfinancial indicators will be a stronger differentiator between the institutions. However, there are readily discernible financial differences between an institution scoring 3.4 and 5.5 on the CFI. An institution with a significantly low or declining CFI will be disadvantaged when competing with institutions with a higher or improving CFI.

The Composite Financial Indices (CFI) for Arizona State University, Northern Arizona University, and The University of Arizona, along with each university's analysis, are presented on the next two facing pages.

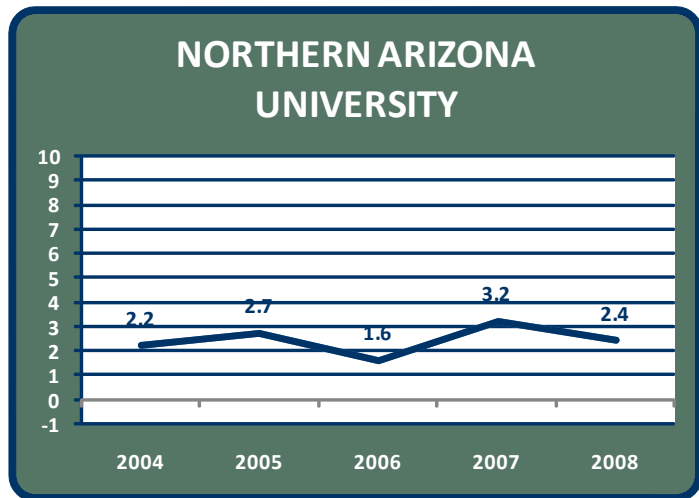
COMPOSITE FINANCIAL INDEX (CFI)

KPMG Scale

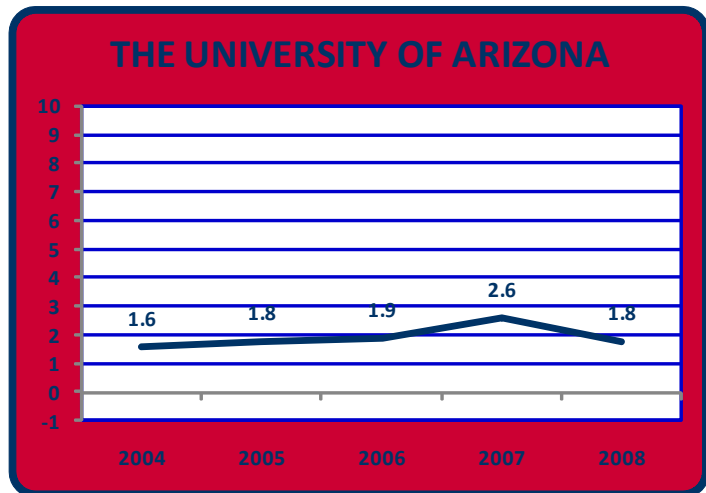
- 8 to 10 Deploy resources to achieve robust mission
- 6 to 9 Allow experimentation with new initiatives
- 4 to 7 Focus resources to compete in future state
- 2 to 5 Direct institutional resources to allow transformation
- 0 to 3 Re-engineer the institution
- 1 to +1 Assess institutional ability to survive



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- 2 to 5 Direct institutional resources to allow transformation
- 0 to 3 Re-engineer the institution
- 1 to +1 Assess institutional ability to survive



COMPOSITE FINANCIAL INDEX (CFI)

ASU BULLET ANALYSIS

- ASU has a CFI of 1.0 for the fiscal year ended June 30, 2008.
- The CFI shows a decline over previous years based on the factors noted earlier, some of a temporary duration (unrestricted net assets reduced temporarily due to the delayed financing of the Polytechnic Academic Complex) and some of an unknown duration (the challenging investment markets and the economic crisis of the state of Arizona).
- Had the Polytechnic Academic Complex financing occurred in FY 2008, the university's FY 2008 CFI would have been approximately 1.2.
- The CFI is one indicator of financial health for an institution but must be combined with non-financial indicators such as enrollment growth, national recognition of academic and research programs, and construction of new facilities in determining the overall health of the university.

NAU BULLET ANALYSIS

- NAU has a CFI of 2.4 for the fiscal year ended June 30, 2008.
- NAU's CFI is significantly weakened by its Viability Ratio, which is negatively impacted by long-term debt.
- NAU is in a very aggressive and unprecedented capital improvement program and expansion, resulting in an almost \$200 million increase in the long-term debt of the university and its component units. The new facilities constructed from this tax-exempt debt are a combination of auxiliary, academic, and research.
- NAU has grown its enrollment, and accompanying tuition, and research revenues over this expansion period; has replenished reserves; and reported excellent Returns on Net Assets.

UA BULLET ANALYSIS

- UA reported a CFI of 1.8 for the fiscal year ended June 30, 2008.
- The Viability Ratio negatively affects the CFI due to UA's increase in long-term debt.
- UA's capital expansion and improvements added \$328 million to long-term debt. Of this amount, \$193 million is attributable to research infrastructure necessary to support the university's goal to increase research capabilities as a Very High Research (Research I) institution.
- UA has experienced enrollment growth accompanied by increased tuition and research revenues. This trend in increasing revenues has allowed UA to demonstrate annual increases in Return on Net Assets over the past several years.

BENCHMARKING

FOUR RATIOS

The KPMG methodology provides a scale against which to benchmark the universities' four ratios. This scale is based on industry experience.

- 1 represents very little financial health;
- 3, the threshold level, represents a relatively stronger financial position; and
- 10 represents the top score within range for an institution.

SCORING SCALE	1	3	10
Primary Reserve Ratio	13.3%	40%	133%
Return on Net Assets Ratio	2%	6%	20%
Net Operating Revenues Ratio	1.3%	4%	13%
Viability Ratio	41.7%	125%	416%

A strength factor of 1 on each of the four ratios, which is also a CFI of 1, indicates an institution under financial stress. This institution has a Primary Reserve Ratio of 13.3%, indicating that expendable resources are available to cover about 49 days of annualized expenses (13.3% of 365), and that while some Net Operating Revenues and Return on Net Assets exist, the amounts of 1.3% and 2%, respectively, are too small to allow replenishment of reserve levels and may well not equal even modest growth in total expenses. Finally, a Viability Ratio of 41.7% indicates long-term debt exceeding expendable resources by 2.4 times ($1 / .417$).

A strength factor of 3 on each of the four ratios indicates that an institution is relatively financially healthy in that approximately 146 days of annualized expenses are retained in expendable resources (40% of 365); the Net Operating Revenues generated are sufficient to keep pace with, and will likely exceed the growth of, moderate expense levels; the Return on Net Assets would appear reasonable for the overall investment activity of the institution; and expendable net assets (Viability Ratio) exceed the institutional debt levels, although not by excessive amounts. Institutions with this profile generally have enough wealth and access to capital resources to finance modest program improvements and address a modest financial challenge; however, a significant institutional transformation may be difficult to realize without additional resources.

At a strength factor of 10 on each ratio, about 485 days of annualized expenses exist in expendable resources (Primary Reserve Ratio); Net Operating Revenues indicate the margin from operating activities will exceed normal increases in expense levels; the Return on Net Assets will provide marginal resources that may be used to support institutional initiatives; and the institution has substantial expendable resources in excess of debt (Viability Ratio).

BENCHMARKING TO PEERS

It is instructive to consider these thoughts from the KPMG methodology on comparing an institution's financial ratios to a peer group:

“Prior editions (of this work) have noted the use of financial ratios to make peer comparisons. Publications have increased the use of peer rankings over time, especially concerning the quality of academic programs and the institution as a whole. These peer comparisons have benefited many institutions and provided management a way to communicate an institution's goals and progress toward those goals to its various stakeholders. Institutions have also used peer comparisons successfully by establishing an aspirant peer group. However, it has also become evident that some institutions have over-used peer comparisons and have forgotten three basic principles of financial analysis—one, ratios should be used to measure success factors in order to improve the institution financially to achieve its mission; two, that the information being compared must be on a fairly consistent basis; and three, that peer comparisons are only a weak relative indicator and do not measure attainment of an institution's unique mission. Therefore, common sense, qualitative interpretation, and longitudinal interpretation are required.”

The KPMG methodology continues, stating:

“Longitudinal comparisons are generally more important than peer comparisons since the institution can adapt the ratios over time to meet institutional needs and reflect changing conditions. In addition, . . . many ratio calculations can be modified to better reflect the objectives of the particular institution. The institution is generally assured of a consistent basis and availability of information sources, not all of which are reported in the institution's annual financial report. Causes of changes in ratios can also be identified more easily. Internal comparisons can be used over a longer time horizon to monitor historical institutional performance, establish prospective targets and, combined with nonfinancial drivers, present a more thorough analysis and evaluation.”

The KPMG methodology also discusses limitations of comparisons among public institutions. Some public institutions rely on the sponsoring government for a credit rating for debt, whereas others obtain their own credit rating. In some instances, debt related to a public institution's plant assets does not reside at the institution level—where it resides for ASU, NAU, and UA—but rather at a higher level such as a state system or the state. In some states, public institutions are not permitted to maintain expendable net asset balances above a certain level; institutions that incur operating surpluses or have significant expendable net assets may find future operating support reduced.

The KPMG methodology comments that:

“Many public institutions may find the threshold values (for the four core ratios) too high or cannot attain them due to operating and governance restrictions; however, the values indicate that these institutions possess minimal operating and financial flexibility independent of the state, which we believe limits the institutions’ ability to adapt to a changing market and invest in significant new strategic initiatives, absent the identification of a specific new funding source.”

Central office and university staff are currently working to develop a new set of peer institutions for each of our universities. When these peer sets are approved by the Board, it is the intent to compile data, as feasible, to add additional context for the analysis. As stated previously, the analytical value of peer comparisons is limited but could give the Board some additional information as financial health is monitored over time.

COMPOSITE FINANCIAL INDEX (CFI)

The KPMG methodology uses the scale presented on page 24 to interpret the CFI scores. The language associated with the scale is directly from the KPMG methodology

ASU Data

ARIZONA STATE UNIVERSITY

FINANCIAL RATIOS	FY 2008				FY 2007				FY 2006				FY 2005				FY 2004				
	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	
Primary Reserve Ratio calculation:																					
Institution unrestricted net assets	27,388				155,702				145,128				160,275				149,725				
Institution expendable restricted net assets	99,214				76,908				62,854				55,914				63,096				
C.U. unrestricted net assets	6,512				32,802				38,154				27,250				9,488				
C.U. temporary restrict net assets	233,668				219,495				115,184				94,275				81,016				
C.U. net investment in plant	-				-				-				-				-				
Numerator-Total	366,762				484,907				361,320				337,714				303,325				
Institution operating expenses	1,393,530				1,263,699				1,115,768				1,013,571				881,316				
Institution nonoperating expenses	53,421				46,823				42,788				35,035				45,620				
C.U. total expenses	158,433				137,843				103,421				95,441				68,976				
Denominator- Total	1,605,384				1,448,365				1,261,977				1,144,047				995,912				
PRIMARY RESERVE RATIO	0.228	1.718	0.35	0.60	0.335	2.517	0.35	0.88	0.286	2.153	0.35	0.75	0.295	2.219	0.35	0.78	0.305	2.290	0.35	0.80	
Net Operating Revenue Ratio calculation:																					
Institution operating Income (loss)	(599,453)				(476,057)				(405,607)				(390,314)				(337,790)				
Institution net nonoperating revenues	582,936				482,391				412,185				373,633				329,442				
C.U. change in unrestricted net assets	(25,750)				(5,655)				10,904				19,888				1,753				
Elimination of inter-entity amounts	-				-				-				-				-				
Numerator-Total	(42,267)				679				17,482				3,207				(6,595)				
Institution operating revenues	794,077				787,642				710,161				623,257				543,526				
institution nonoperating revenues	636,357				529,214				454,973				408,668				375,062				
C.U. total unrestricted revenues	132,683				132,188				114,325				115,329				70,729				
Elimination of inter-entity amounts	-				-				-				-				-				
Denominator- Total	1,563,117				1,449,044				1,279,459				1,147,254				989,317				
NET OPERATING REVENUES RATIO	-0.027	-1.000	0.1	-0.10	0.000	0.036	0.1	0.00	0.014	1.051	0.1	0.11	0.003	0.215	0.1	0.02	-0.007	-0.513	0.1	-0.05	
Return on Net Assets Ratio calculation:																					
Change in net assets + C.U. change in net assets	37,286				153,438				130,457				37,817				33,556				
Divided by total net assets + C.U. total net assets	1,486,985				1,450,120				1,296,379				1,165,922				1,143,379				
RETURN ON NET ASSETS RATIO	0.025	1.254	0.2	0.25	0.106	5.291	0.2	1.06	0.101	5.032	0.2	1.01	0.032	1.622	0.2	0.32	0.029	1.467	0.2	0.29	
Viability Ratio calculation:																					
Numerator- Expendable net assets	366,762				484,907				361,320				337,714				303,325				
Institution long-term debt (total project-related debt)	940,228				872,278				807,109				808,200				592,674				
C.U. long-term debt (total project-related debt)	540,121				416,703				417,311				279,212				191,646				
Denominator- total long-term debt	1,480,349				1,288,981				1,224,420				1,087,412				784,320				
VIABILITY RATIO	0.248	0.594	0.35	0.21	0.376	0.902	0.35	0.32	0.295	0.708	0.35	0.25	0.311	0.745	0.35	0.26	0.387	0.927	0.35	0.32	
COMPOSITE FINANCIAL INDEX (CFI)				1.0				2.3				2.1					1.4				1.4

ARIZONA STATE UNIVERSITY with POLYTECHNIC FINANCING RESTATEMENT

FINANCIAL RATIOS		FY 2007				FY 2006				FY 2005				FY 2004			
		Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI
Primary Reserve Ratio calculation:																	
Institution unrestricted net assets	+	121,368	155,702			145,128				160,275				149,725			
Institution expendable restricted net assets	+	99,214	76,908			62,854				55,914				63,096			
C.U. unrestricted net assets	+	6,512	32,802			38,154				27,250				9,488			
C.U. temporary restrict net assets	+	233,668	219,495			115,184				94,275				81,016			
C.U. net investment in plant	-	-	-			-				-				-			
Numerator-Total		466,762	484,907			361,320				337,714				303,325			
Institution operating expenses	+	1,393,530	1,263,699			1,115,768				1,013,571				881,316			
Institution nonoperating expenses	+	53,421	46,823			42,788				35,035				45,620			
C.U. total expenses	+	158,433	137,843			103,421				95,441				68,976			
Denominator- Total		1,605,384	1,448,365			1,261,977				1,144,047				995,912			
PRIMARY RESERVE RATIO	+	0.291	0.335	0.35	0.88	0.286	0.35	0.75	0.75	0.295	0.35	0.78	0.305	0.290	0.35	0.80	0.80
Net Operating Revenue Ratio calculation:																	
Institution operating Income (loss)	+	(599,453)	(476,057)			(405,607)				(390,314)				(337,790)			
Institution net nonoperating revenues	+	582,936	482,391			412,185				373,633				329,442			
C.U. change in unrestricted net assets	+	(25,750)	(5,655)			10,904				19,888				1,753			
Elimination of inter-entity amounts	+	-	-			-				-				-			
Numerator-Total		(42,267)	679			17,482				3,207				(6,595)			
Institution operating revenues	+	794,077	787,642			710,161				623,257				543,526			
institution nonoperating revenues	+	636,357	529,214			454,973				408,668				375,062			
C.U. total unrestricted revenues	+	132,683	132,188			114,325				115,329				70,729			
Elimination of inter-entity amounts	+	-	-			-				-				-			
Denominator- Total		1,563,117	1,449,044			1,279,459				1,147,254				989,317			
NET OPERATING REVENUES RATIO	+	-0.027	0.000	0.1	0.00	0.014	0.1	0.11	0.11	0.003	0.1	0.02	-0.007	-0.513	0.1	-0.05	-0.05
Return on Net Assets Ratio calculation:																	
Change in net assets + C.U. change in net assets		37,286	153,438			130,457				37,817				33,556			
Divided by total net assets + C.U. total net assets		1,486,985	1,450,120			1,296,379				1,165,922				1,143,379			
RETURN ON NET ASSETS RATIO	+	0.025	0.106	0.2	1.06	0.101	0.2	1.01	1.01	0.032	0.2	0.32	0.029	1.467	0.2	0.29	0.29
Viability Ratio calculation:																	
Numerator- Expendable net assets		466,762	484,907			361,320				337,714				303,325			
Institution long-term debt (total project-related debt)	+	940,228	872,278			807,109				808,200				592,674			
C.U. long-term debt (total project-related debt)	+	540,121	416,703			417,311				279,212				191,646			
Denominator- total long-term debt		1,480,349	1,288,981			1,224,420				1,087,412				784,320			
VIABILITY RATIO	+	0.315	0.376	0.35	0.32	0.295	0.35	0.25	0.25	0.311	0.35	0.26	0.387	0.927	0.35	0.32	0.32
COMPOSITE FINANCIAL INDEX (CFI)																	
			1.2		2.3				2.1			1.4					1.4

NAU Data

NORTHERN ARIZONA UNIVERSITY

FINANCIAL RATIOS	FY 2008				FY 2007				FY 2006				FY 2005				FY 2004				
	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	
Primary Reserve Ratio calculation:																					
Institution unrestricted net assets	80149				70716				47337				45075				37244				
Institution expendable restricted net assets	22951				19801				20193				18345				14367				
C.U. unrestricted net assets	20139				15944				10030				7373				5061				
C.U. temporary restrict net assets	22845				25025				15668				14533				12656				
C.U. net investment in plant	49254				44574				30313				16443				12547				
Numerator- Total	96830				86912				62915				68883				56781				
Institution operating expenses	355565				330633				310766				278917				273455				
Institution nonoperating expenses	13967				10541				10433				8345				5781				
C.U. total expenses	37869				28202				7000				18206				6907				
Denominator- Total	407401				369376				328199				305468				286143				
PRIMARY RESERVE RATIO	0.238	1.787	0.35	0.63	0.235	1.769	0.35	0.62	0.192	1.441	0.35	0.50	0.225	1.695	0.35	0.59	0.198	1.492	0.35	0.52	
Net Operating Revenue Ratio calculation:																					
Institution operating Income (loss)	-193222				-136057				-129198				-107381				-108300				
Institution net nonoperating revenues	214139				158678				138397				130045				122134				
C.U. change in unrestricted net assets	4195				5816				2657				2446				3175				
Elimination of inter-entity amounts	0				0				0												
Numerator- Total	25112				28437				11856				25110				17009				
Institution operating revenues	162343				194576				181568				171536				165155				
institution nonoperating revenues	228106				169218				148829				138390				127915				
C.U. total unrestricted revenues	42063				34018				9657				20653				10082				
Elimination of inter-entity amounts	0				0				0												
Denominator- Total	432512				397812				340054				330579				303152				
NET OPERATING REVENUES RATIO	0.058	4.466	0.1	0.45	0.071	5.499	0.1	0.55	0.035	2.682	0.1	0.27	0.076	5.843	0.1	0.58	0.056	4.316	0.1	0.43	
Return on Net Assets Ratio calculation:																					
Change in net assets + C.U. change in net assets	34842				46646				16322				28543				18924				
Divided by total net assets + C.U. total net assets	317119				264815				249904				221068				202862				
RETURN ON NET ASSETS RATIO	0.110	5.494	0.2	1.10	0.176	8.807	0.2	1.76	0.065	3.266	0.2	0.65	0.129	6.456	0.2	1.29	0.093	4.664	0.2	0.93	
Viability Ratio calculation:																					
Numerator- Expendable net assets	96830				86912				62915				68883				56781				
Institution long-term debt (total project-related debt)	292740				252201				240221				181903				128008				
C.U. long-term debt (total project-related debt)	48519				47423				35391				35480				15726				
Denominator- total long-term debt	341259				299624				240221				217383				143734				
VIABILITY RATIO	0.284	0.680	0.35	0.24	0.290	0.696	0.35	0.24	0.262	0.628	0.35	0.22	0.317	0.760	0.35	0.27	0.395	0.947	0.35	0.33	
COMPOSITE FINANCIAL INDEX (CFI)				2.4				3.2				1.6				2.7				2.2	

UA Data

THE UNIVERSITY OF ARIZONA

FINANCIAL RATIOS		FY 2008					FY 2006					FY 2005					FY 2004				
		Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI	Data	Str	Wt	CFI
Primary Reserve Ratio calculation:																					
	Institution unrestricted net assets	+ 157,234				165,775				149,522				101,266				106,895			
	Institution expendable restricted net assets	+ 158,554				133,550				122,003				105,429				96,758			
	C.U. unrestricted net assets	+ 30,371				27,784				24,484				19,498				19,264			
	C.U. temporary restrict net assets	+ 147,555				153,653				148,316				155,679				137,253			
	C.U. net investment in plant	- 15,033				-15,572				-14,667				-12,345				-29,576			
	Numerator- Total	478,681			0.84	465,190			0.88	429,658			0.85	369,526			0.78	330,594			
	Institution operating expenses	+ 1,375,060				1,284,787				1,230,857				1,163,410				1,109,931			
	Institution nonoperating expenses	+ 41,121				38,426				31,407				26,769				23,984			
	C.U. total expenses	+ 87,471				70,816				72,635				54,688				60,684			
	Denominator- Total	1,503,652				1,394,029				1,334,899				1,244,867				1,194,599			
	PRIMARY RESERVE RATIO	+ 0.318		0.35	0.84	0.334		0.35	0.88	0.322		0.35	0.85	0.297		0.35	0.78	0.277		0.35	0.73
Net Operating Revenue Ratio calculation:																					
	Institution operating income (loss)	+ -568,259				-472,502				-446,264				-393,457				-380,061			
	Institution net nonoperating revenues	+ 569,170				507,584				453,026				397,113				381,737			
	C.U. change in unrestricted net assets	+ 2,587				3,300				4,986				234				0			
	Elimination of inter-entity amounts	+ 0				0				0				0				0			
	Numerator- Total	3,498				38,382				11,748				3,890				1,676			
	Institution operating revenues	+ 806,801				812,285				784,683				769,953				729,870			
	institution nonoperating revenues	+ 569,170				546,010				484,433				423,882				405,721			
	C.U. total unrestricted revenues	+ 89,924				74,253				77,039				54,251				61,816			
	Elimination of inter-entity amounts	+ 0				0				0				0				0			
	Denominator- Total	1,465,895				1,432,548				1,346,165				1,248,086				1,197,407			
	NET OPERATING REVENUES RATIO	+ 0.002		0.1	0.02	0.027		0.1	0.21	0.009		0.1	0.07	0.003		0.1	0.02	0.001		0.1	0.01
Return on Net Assets Ratio calculation:																					
	Change in net assets + C.U. change in net assets	60,623				124,132				63,125				66,208				48,767			
	Divided by total net assets + C.U. total net assets	1,322,088				1,209,185				1,146,062				1,079,854				1,030,344			
	RETURN ON NET ASSETS RATIO	+ 0.046		0.2	0.46	0.103		0.2	1.03	0.055		0.2	0.55	0.061		0.2	0.61	0.047		0.2	0.47
Viability Ratio calculation:																					
	Numerator- Expendable net assets	478,681				465,190				429,658				369,526				330,594			
	Institution long-term debt (total project-related debt)	+ 876,339				867,240				842,388				778,448				777,063			
	C.U. long-term debt (total project-related debt)	+ 9,829				10,537				11,266				10,476				30,669			
	Denominator- total long-term debt	886,168				877,777				853,653				788,924				807,732			
	VIABILITY RATIO	+ 0.540		0.35	0.45	0.530		0.35	0.44	0.503		0.35	0.42	0.468		0.35	0.39	0.409		0.35	0.34
COMPOSITE FINANCIAL INDEX (CFI)																					
					1.8				2.6				1.9				1.8				1.6

APPENDIX A

**COMMENTARY ON FY 2008 ASSESSMENT OF FINANCIAL STRENGTH
CAROL N. CAMPBELL
PRESENTED TO THE ARIZONA BOARD OF REGENTS AUDIT COMMITTEE
JANUARY 22, 2009**

Past experience with KPMG/Prager Ratio Analysis:

In the late 1990's, the Department of Education revamped the Title IV (Federal Financial Aid Programs) financial eligibility criteria. As part of the process, I was asked to serve as a consultant to the ED. We looked at a number of possible tools that would serve the purpose and settled on the four ratios previously developed by KPMG/Prager as the most robust and descriptive indicators available. I actively participated in the public commentary process that followed the introduction of the ratios and once they were adopted, I also served as faculty, presenting the ratios and at a series of educational sessions for university business officers.

PURPOSE OF THE RATIOS:

The ratios are indicators of institutional financial strengths and weaknesses. They are not a report card; rather they are tools to understand individual institutions and to serve as a basis for future decision-making. They help answer questions such as, "Does an institution have the financial flexibility to broaden its mission?" Or in present circumstances in Arizona, "How do we best manage through a severe revenue shortfall?"

The ratios should NOT be used to compare the Arizona universities against one another. We are three distinct entities, each coping with a very different set of dynamics and each having distinctly different composite revenues, growth patterns, and research focus.

The ratios are best used to study each university individually and most importantly, the trend of each ratio over time.

BACKGROUND:

That said, there are certain commonalities among the Arizona Universities because of the environment in which we all exist that have an overwhelming influence on the relatively weakness of the ratios in comparison with national results. These common factors include:

❖ Structural Revenue Deficits

- Tuition. ABOR and case law have determined that compliance with state constitutional requirements that "education be as free as possible" means that in-state tuition cannot exceed the "top of the bottom third," nationally and, indeed, ABOR has a history of

reducing requests to raise tuition even when the requests have been at or below that threshold. Recently adopted tuition guarantee programs lag the national rankings by one year for incoming freshmen and do not keep pace over the student's subsequent years of enrollment. Currently, the Universities all rank well below the top of the bottom third.

- State Support. While State instructional and capital support per student differs among the three institutions, it is well below national averages as well. In 2007, the most recent year for which data was available from IPEDS, the Universities ranked 16th (U of A), 30th (NAU), and 36th (ASU) out of the 50 states when combining state appropriations and state capital appropriations per FTE. Results were similar if only state appropriations per FTE are measured.
- Fund-Raising and Endowment Support. Taking a look across the United States, one will find a marked cultural differentiation between the East Coast, which is dominated by private universities and the Rocky Mountain region which is dominated by public universities. The much older, established Eastern and Midwestern universities have built a strong legacy of financial stewardship among alumni that is lacking in the West. Thus, private support and, more importantly, the endowments that result from many years of such support, are considerably lower in the West, and especially in Arizona where both institutional youth and a culture that does not prize education are in effect.

❖ Structural Expense Deficits

- Debt Service. Unlike many other states, the State of Arizona does not bond for University academic facilities. While the State will sometimes appropriate funds for debt service, the impact of this is higher expenses flowing through the Universities and a far greater debt burden without the offsetting asset base. Lack of State responsibility for academic facilities is exacerbated because while enrollments, and therefore facility needs, are growing in Arizona, most of the rest of the nation is enjoying stable enrollment.
- Financial Aid. Unlike many other states, the State of Arizona does not have a state-sponsored financial aid program for Arizona students. Therefore ABOR had mandated that the Universities set aside a minimum of 17% of tuition to fund financial aid. In fact, the Universities exceed this requirement to maintain access to as many students as possible. In general, financial aid expenses are considerably higher for the Arizona Universities than at many other universities, unless such Universities have depth in endowed scholarships.

❖ Structural Operating Margin Deficit

Despite the limited revenue base and mandatory funding of both facilities and financial aid as described above, the Arizona Universities still operate in a competitive national marketplace where academic journals, lab supplies, the national academic labor pool, and other components of the Higher Education Price Index (HEPI) are the same as all other universities. And the historical annual increase in the HEPI averages about 1% higher than the CPI. The combination of factors puts intense pressure on operating margins, especially when enrollment increases must be absorbed.

All of these factors combine to create an operating environment in which reserves are thin and building reserves, as reflected in growth of net assets, is a long, slow, process. This is well-reflected in all of the following ratios which are calculated on the basis of revenues, expenses, net assets, operating margins, outstanding debt, and debt service.

SUMMARY:

The threshold and comparative ratio scales are useful to illustrate that the Arizona Universities are much higher leveraged and under-reserved and operate on thinner margins compared to national norms. This means that the Arizona Universities have considerably less capacity than their national peers with which to ride out an economic downturn.

Because of the unique set of structural revenue and expense deficits that impact the Arizona Universities, it is difficult to find peer comparisons that operate in a similar economic environment.

In general, the Universities' ratios trended upward from 2004 through 2007 and declined somewhat in 2008. Reasons include increased debt as facilities to manage enrollment growth and research infrastructure were built, declining financial market returns, and a decline in state appropriation.

Nevertheless, it is important to note that the Universities have generally held their own with essentially stable trends over the past five years while at the same time they have absorbed thousands of additional students, added tens of thousands of gross square feet new space, improved student access and financial aid, all the while raising academic quality and research productivity.

Looking ahead, deep cuts in state appropriations combined with unprecedented endowment losses present very challenging circumstances for Universities with so little financial flexibility.

The next section provides supplemental commentary on each of the individual ratios and should be read in conjunction with the commentary provided in the January 12, 2009 FY 2008 Assessment of Financial Strength document.

PRIMARY RESERVE RATIO

The purpose of this ratio is to determine if spendable reserves are keeping pace with the growth in operations. A stable trend over time, which all Universities exhibit, indicates that this is the case.

Expect the ratio to decline when:

- Enrollment growth requires facility expansion which converts expendable assets to non-expendable assets due to investment in additional facilities.
- Sudden financial market decline reduces the value of endowments which are reflected in expendable net assets without proportional and precipitous reduction of expenses.

Expect the ratio to increase when:

- Revenues regularly exceed expenses creating additional reserves.
- Financial markets rise creating additional endowment value in excess of current endowment spending.

Given the investment in facilities and growth in operations due to increasing enrollment, the stable trends of all Universities are quite an achievement.

The future implications are that financial market declines following June 30, 2008 will likely erode the ratios in 2009 and given that 2008 values are below the advised threshold level, the Board needs to question how much of the reduction in state support can be absorbed by further eroding reserves.

RETURN ON NET ASSETS RATIO

This ratio reflects the productive use of assets over time. It is sensitive to the absolute value of the annual increase in net assets (all revenue minus all expenses) in proportion to the size of the asset base. In the case of the Arizona Universities, UA and ASU have four times the asset base of NAU. To achieve a 10% return on net assets, UA and ASU would need consistent revenues of \$130 to \$140 million in excess of all expenses including the depreciation generated by their large investment in fixed assets. Results of this magnitude are unlikely, especially under current economic conditions.

Since all revenues and expenses are included in determining this ratio, volatility may be caused by nonrecurring events such as land sales, write-downs, or dramatic swings in financial markets. The Board should understand the reasons for such annual volatility.

Over time, the ratio will reflect the budgetary philosophy and financial environment of an institution, including considerations such as whether it is operating at break-even or is building or consuming reserves. The Board should understand the reasons underlying these results.

NET OPERATING REVENUES RATIO

This ratio focuses on the results of recurring operations. By definition, it excludes “other income,” capital gifts and grants, most gifts to the endowment, and, importantly, the annual state appropriation for research infrastructure. Since operating expenses such as debt service and depreciation for these research facilities are included in the calculation, excluding the offsetting revenue artificially depresses this ratio with the effect most pronounced for UA and ASU.

This ratio is an even stronger indicator of budget philosophy over time and it should reflect lower volatility than the Return on Net Asset ratio.

Given the structural revenue and expense deficits note previously, it is no surprise that the Arizona Universities have relatively low operating margins and therefore low ratio values on a national scale. Only NAU has met the threshold level over the past five years, and has done so consistently.

This ratio also reflects the relatively poor financial market returns in fiscal 2008, and probably some erosion of reserves as state appropriation cuts were absorbed late in the fiscal year. To the extent that current year expenses are paid from reserves, which accumulated from prior years’ revenues, a current year financial operating deficit is incurred.

Looking ahead, this ratio will likely fall further due to the precipitous financial market decline in fall 2008 and as reserves may be further eroded to meet anticipated state appropriation cuts.

VIABILITY RATIO

As a ratio of expendable net assets to debt, this ratio is an indicator of debt capacity and financial flexibility. The ratios of the Arizona Universities reflect their rather unique situation under which the state will not bond for academic facilities but will, on occasion, provide legislative appropriations for debt service. Note that legislative appropriations support 35% of ASU debt, 30% of NAU debt, and over 20% of UA debt. If either the state carried the debt, or the Universities carried net assets sufficient to service the debt, then the ratios would be considerably higher.

The rating agencies recognize and give the Universities credit for this situation. The average AA rated public university has two dollars of net assets for every dollar of debt. Both UA and ASU have AA ratings even though their balance sheets reflect just one dollar of net assets for every two dollars of debt. However, investment in enrollment growth and research facilities has taken its toll and institutional debt capacity, at current ratings, is limited.

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APPENDIX B

ARIZONA UNIVERSITY SYSTEM FY 2008 FINANCIAL RATIO ANALYSIS

EXECUTIVE SUMMARY

BACKGROUND:

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

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

Therefore, this FY 2008 annual financial ratio analysis uses data from the universities' FY 2008 audited financial statements, together with data from six previous annual reports, covering the period July 1, 2001, through June 30, 2008. An additional year of information will be added to this ratio analysis each year until ten years of comparable information is again provided.

Each university has presented 10 ratios over the 7-year period. The ratios serve as indicators of the universities' financial strengths and weaknesses. See pages 5 through 15 for the systemwide ratio analysis and graphs. Ratio formulas are presented on page 16, and ratios are presented by university on pages 17-19.

ANALYSIS:

Ratio 1: State General Fund Appropriations to Total Revenue

State General Fund Appropriations as a percentage of Total Revenue at each university remained relatively stable over the last 5 years, with NAU and UA reporting the highest percentages in 5 years, 40% and 29%, respectively, in FY 2008. ASU's 33% was the highest percentage in the last 4 years. The slight increases in this ratio are primarily due to the \$34.4 million in state appropriations for research infrastructure debt service received in FY 2008. In light of the current state budget crisis, it is expected that the universities' State General Fund Appropriations will decline as a percentage of overall revenues in FY 2009.

Ratio 2: Net Tuition and Fees Revenue to Total Revenue

Net Tuition and Fees Revenue as a percentage of Total Revenue increased 1% or less at all three universities and has remained relatively stable over the last 4-5 years. In FY 2008 ASU reports 30%; NAU, 25%; and UA, 16%. Historically, UA's reliance on tuition

and fees is less due to higher levels of research funding and has remained in the 14-16% range over the 7-year reporting period.

Ratio 3: Gifts, Grants, Contracts, and TRIF Revenue to Total Revenue

Gifts, Grants, Contracts, and TRIF Revenue as a percentage of Total Revenue increased slightly (1% or less) over the prior year at all three universities. Over the 7-year period, this percentage has remained relatively stable—decreasing from 26% to 22% at ASU; from 24% to 23% at NAU; and from 40% to 39%, following an uptick to 43% in FY 2003-2004, at UA. UA's greater restricted funding from the federal government and private donors causes its ratio to diverge from ASU's and NAU's.

Ratio 4: Other Revenue to Total Revenue

Other Revenue (auxiliary enterprises revenues, net investment income, and educational department sales and services revenues) as a percentage of Total Revenue decreased 1-3% from the prior year at all three universities, reversing a 3-year upward trend. ASU reported 16%; NAU, 13%, and UA, 15%. Over the 7-year period, this ratio has fluctuated between 13% and 18% at all three universities. In any given year, this ratio can be significantly impacted by irregular transactions such as land sales, insurance recoveries, or increases or decreases in net investment income.

Ratio 5: Net Revenue (University Only) to Total Revenue (University Only)

All three universities managed to cover their current year expenses with current year revenue in FY 2008, thus avoiding the need to deplete net assets to operate the universities. ASU operated very close to the margin in FY 2008, reporting only a \$4 million excess. NAU reported a \$30 million excess, and UA reported a \$43 million excess.

Ratio 6: Net Revenue (University + Component Units) to Total Revenue (University + Component Units)

The upward trend indicating an increasing ability of the universities and their component units (see page 4) to operate within current year revenue was halted in FY 2008, with all three universities reporting declines in this ratio. However, all three universities and their component units managed to cover their current year expenses with current year revenue in FY 2008. ASU and its component units reported a \$37 million excess; NAU, \$35 million; and UA, \$61 million.

Ratios 7 and 8: Expendable Net Assets to Total Expenses; Unrestricted Net Assets to Total Expenses

Ratios 7 and 8 indicate the ability of expendable net assets (those assets available for use for operations) to keep pace with total expenses and the ability of unrestricted net assets (the subset of expendable net assets that can most quickly be converted to cash) to keep pace with total expenses. ASU's ratios declined over the 7-year reporting

period, indicating declining financial strength and declining ability to respond to emergencies or unforeseen needs. However, the significant decline between FY 2007 and FY 2008 is explained in the analysis and by adjustment numbers on the graphs. NAU's FY 2008 ratios increased slightly over the prior year and are at 7-year highs, indicating a new level of financial strength. UA's FY 2008 ratios declined slightly (1-2%) from prior year but stable range over the last 3 years indicates a stable financial position.

Ratio 9: Debt Service Payment (Interest + Principal) to Total Expenses

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

- ASU and UA maintained an AA SRB rating and an AA- COPs rating from S&P; and an Aa3 rating on SRBs and an A1 rating on COPs from Moody's. 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 in the near future. These ratings are in the upper half of the investment grade rating categories.
- NAU maintained an A+ SRB rating and an A COPs rating from S&P; and an A2 SRB rating and an A3 COPs rating from Moody's. 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.

ASU's FY 2008 debt ratio of 5.0% increased slightly over its 4.5% ratio in FY 2007 largely due to the state-funded research infrastructure debt service payments. ASU's debt ratio remained in the 3-5% range during this 7-year reporting period. NAU's FY 2008 debt ratio of 6.8% increased slightly over its 6.5% ratio at prior year-end and is at its highest point in this 7-year reporting period. UA's FY 2008 debt ratio of 6% increased 1% over prior year-end and is at its highest point in this 7-year reporting period.

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

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 decreased by 11% (8% restated) at ASU and by 3% at NAU but remained constant at UA. At June 30, 2008, ASU had sufficient financial resources to pay 55% (58% restated) of its total debt; NAU, 44%; and UA, 102%.

CONCLUSION:

The 30 ratios presented in this analysis indicate that all three universities operated within their current year resources in FY 2008, but both ASU and UA operated very close to the margin, reflecting the tightening of university budgets resulting from a \$32 million cut in FY 2008 State General Fund Appropriations and the downturn in the investment markets. NAU ended FY 2008 in a stronger financial position than either ASU or UA and is better positioned than ASU or UA to manage the FY 2009 budget cuts already made and those yet to be made by the Legislature; this is important for NAU because they also are more dependent on State Appropriations than either ASU or UA.

UNIVERSITY COMPONENT UNITS AS DEFINED BY GASB 14 AND GASB 39

Arizona State University:

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

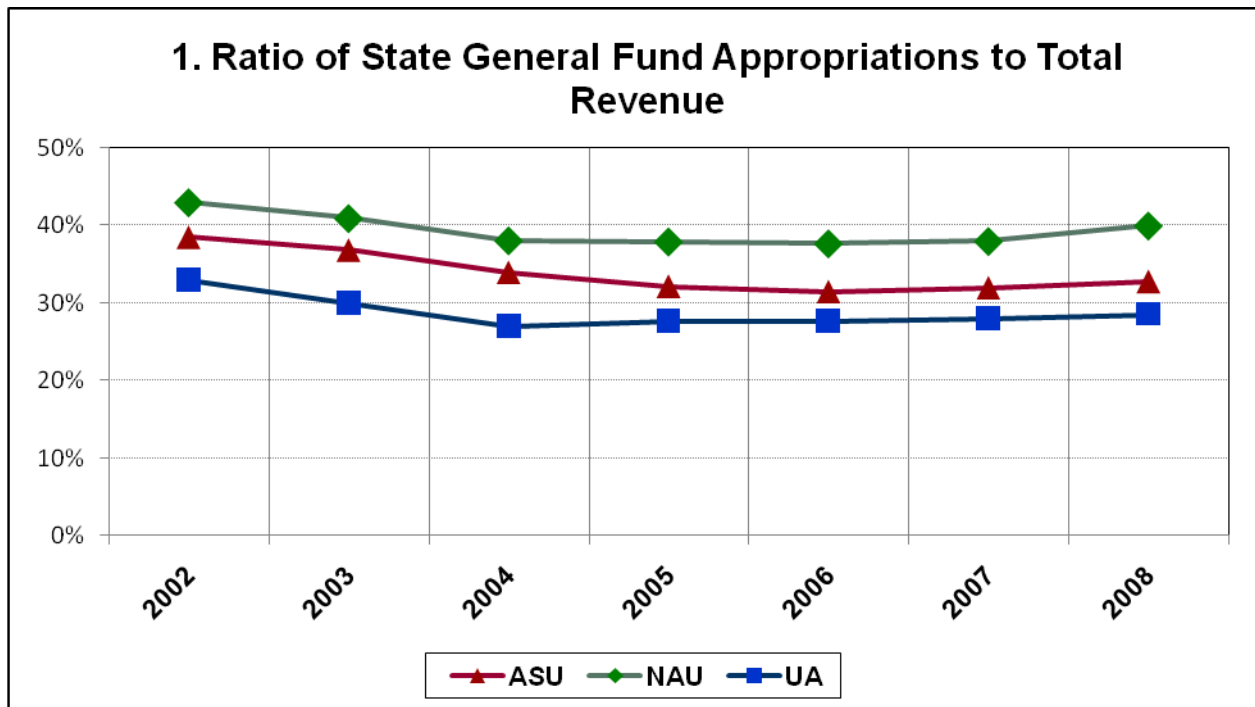
Northern Arizona University:

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

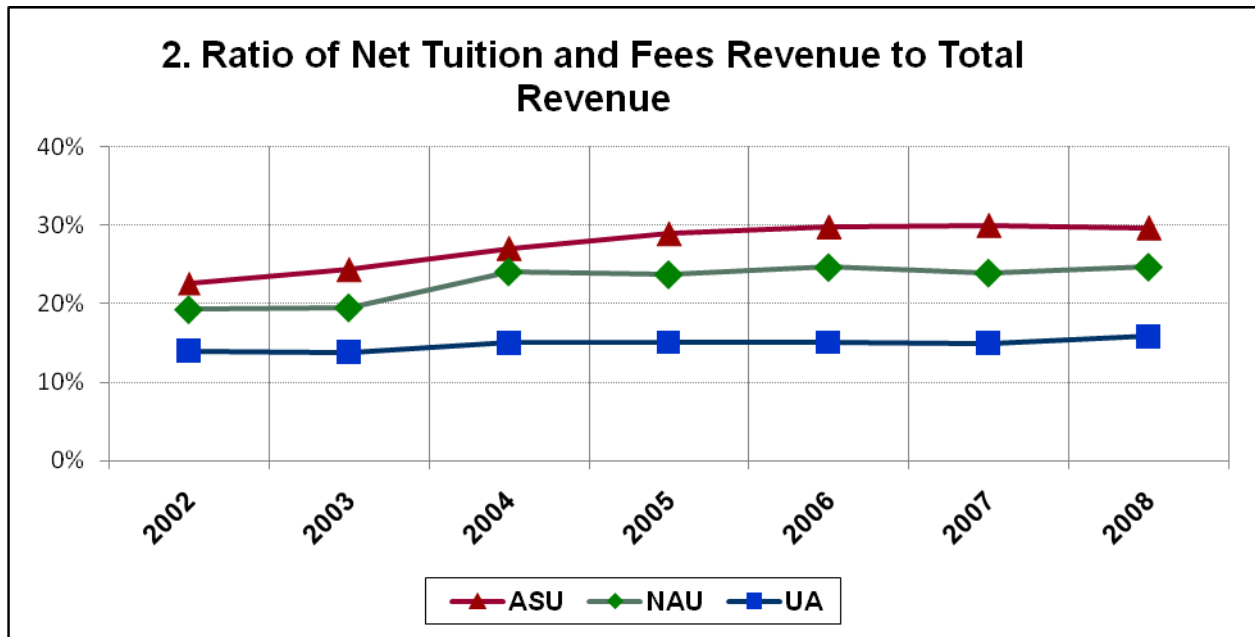
The University of Arizona:

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

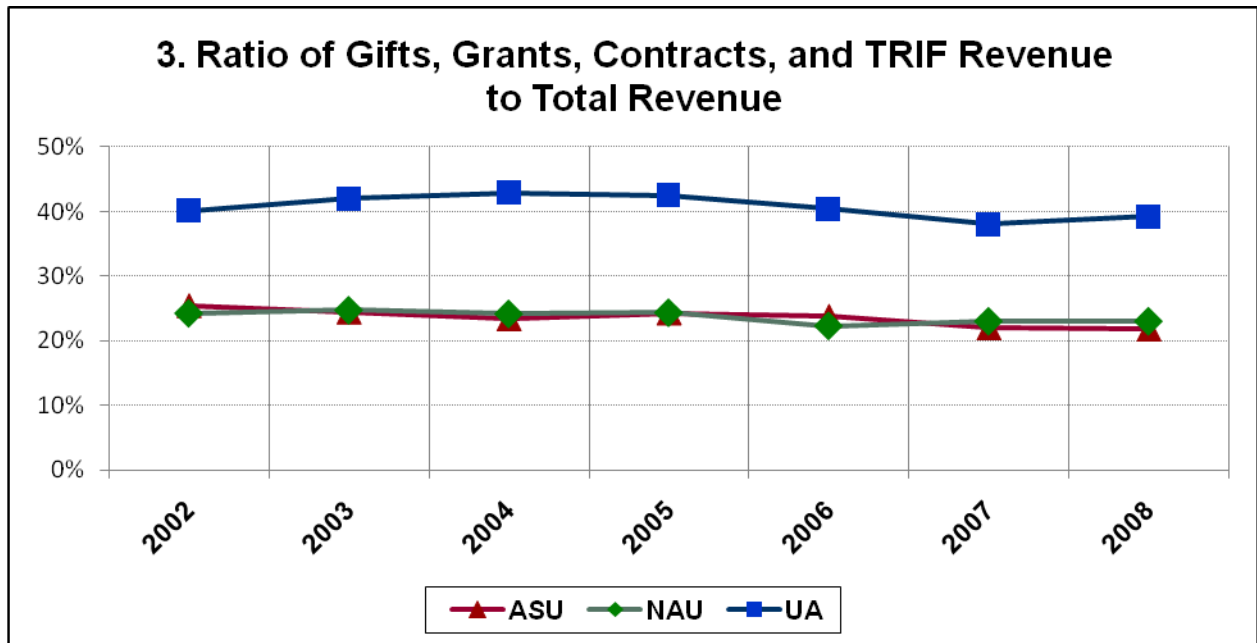
Ratio 1	Description of Ratio
<p data-bbox="180 306 391 443">State General Fund Appropriations Total Revenue</p> <p data-bbox="168 474 402 506"><u>FY 2008 RATIOS</u></p> <p data-bbox="159 552 412 615"><u>ASU</u> <u>NAU</u> <u>UA</u> 33% 40% 29%</p>	<p data-bbox="440 302 1471 470"><i>Element definition:</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="440 506 1471 768">State General Fund Appropriations as a percentage of Total Revenue increased between 1-2% at all three universities from FY 2007 to FY 2008, reversing an initial decline followed by stabilization over the first 6 years of the period. ASU's ratios decreased from 39% in FY 2002 to 32% in FY 2007 but then increased slightly to 33% in FY 2008. NAU's ratios decreased from 42% in FY 2002 to 38% in FY 2004-2007 and then increased to 40% in FY 2008. UA's ratios decreased from 33% in FY 2002 to 28% in FY 2004-2007 and increased to 29% in FY 2008.</p> <p data-bbox="440 804 1471 968">The slight increases in this ratio are primarily due to the \$34.4M in state appropriations for research infrastructure debt service received in FY 2008. In light of the current state budget crisis, it is expected that the universities' State General Fund Appropriations will decline as a percentage of overall revenues in the coming years.</p>



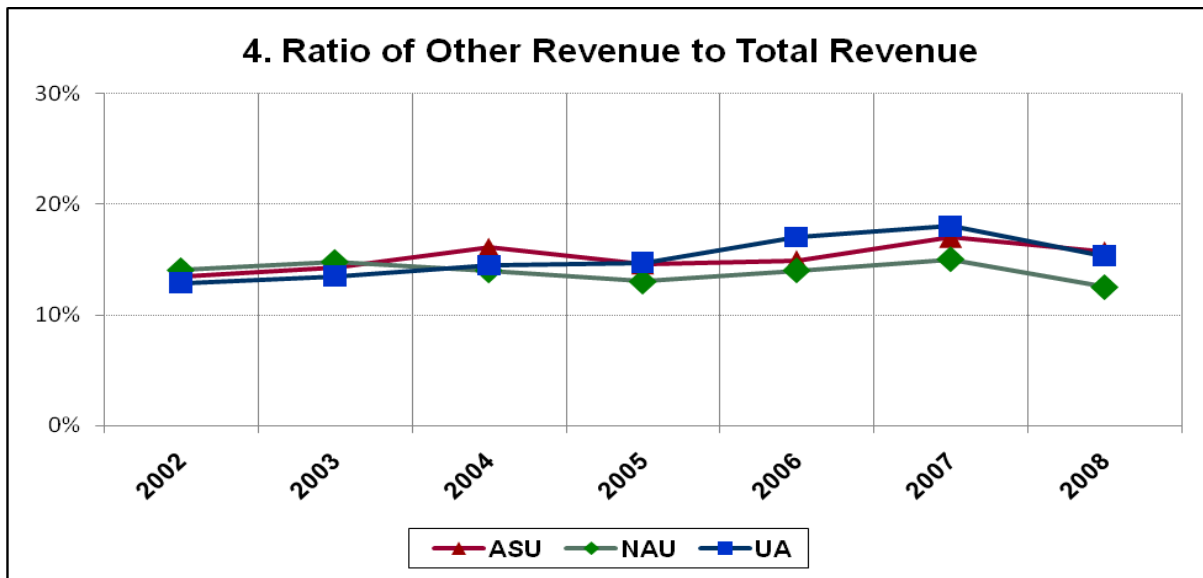
Ratio 2	Description of Ratio
<p data-bbox="154 331 417 401">Net Tuition & Fees</p> <p data-bbox="170 428 365 457">Total Revenue</p> <p data-bbox="170 493 402 527"><u>FY 2008 RATIOS</u></p> <p data-bbox="154 569 417 632"> <u>ASU</u> <u>NAU</u> <u>UA</u> 30% 25% 16% </p>	<p data-bbox="440 306 1469 407">Element definition: <i>Net Tuition and Fees</i> are tuition and fees paid by students and are net of scholarship allowances. <i>Total Revenue</i> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="440 443 1469 611">Net Tuition and Fees as a percentage of Total Revenue increased slightly (1% or less) over the prior year at all three universities. The 7-year change at ASU (23% to 30%), NAU (19% to 25%), and at UA (14% to 16%) shows an increasing reliance on Net Tuition and Fees as a revenue source over the period, but a reliance that has stabilized over the last 4-5 years.</p>



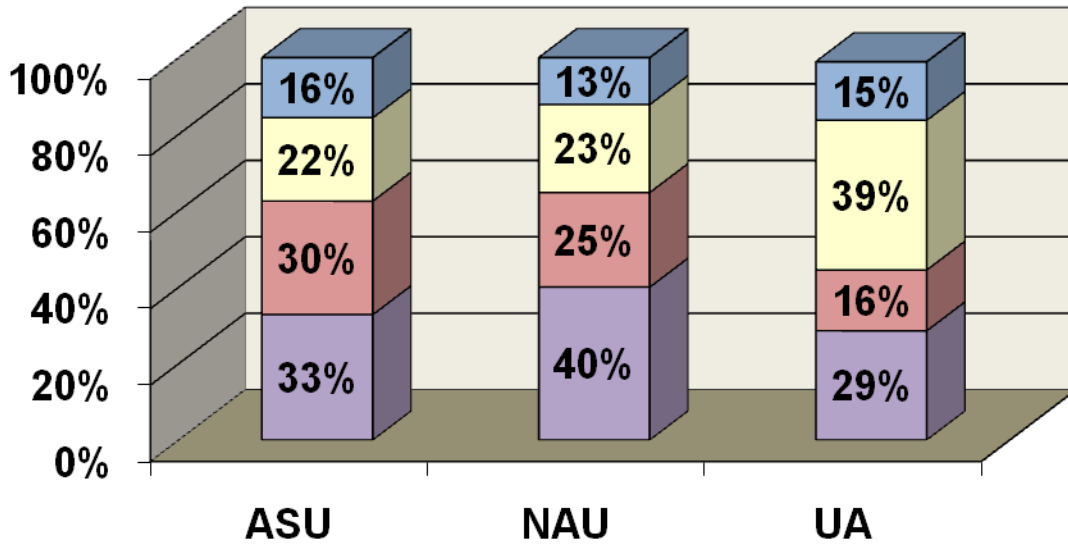
Ratio 3	Description of Ratio
<p data-bbox="154 363 417 464">Gifts, Grants, Contracts & TRIF Revenue</p> <p data-bbox="154 491 350 520">Total Revenue</p> <p data-bbox="154 611 375 640">FY 2008 RATIOS</p> <p data-bbox="154 709 412 774"> <u>ASU</u> <u>NAU</u> <u>UA</u> 22% 23% 39% </p>	<p data-bbox="440 306 1471 506">Element definition: <i>Gifts, Grants, and Contracts</i> come from private donors, additions to endowments, and government (primarily federal) and private research grants and contracts. <i>TRIF Revenue</i> is ABOR's share of state sales tax revenue approved under Proposition 301 (November 2000). <i>Total Revenue</i> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="440 541 1471 709">Total Gifts, Grants, Contracts, and TRIF Revenue as a percentage of Total Revenue increased slightly (1% or less) over the prior year at all three universities. Over the 7-year period, this percentage has remained relatively stable—a decrease from 26% to 22% at ASU; from 24% to 23% at NAU; and from 40% to 39%, following an uptick to 43% in FY 2003-2004, at UA.</p> <p data-bbox="440 745 1471 913">UA's greater restricted funding from the federal government and private donors causes its ratio to diverge from ASU's and NAU's. As research continues to ramp up in FY 2009 and thereafter in all three universities' new research buildings, more federal and other research grants and contracts should generate increased funding, and this ratio should increase.</p>



Ratio 4	Description of Ratio
<p data-bbox="180 306 391 369"><u>Other Revenue</u> <u>Total Revenue</u></p> <p data-bbox="168 407 402 438">FY 2008 RATIOS</p> <p data-bbox="159 478 412 541"><u>ASU</u> <u>NAU</u> <u>UA</u> 16% 13% 15%</p>	<p data-bbox="443 298 1471 430">Element definition: <i>Other Revenue</i> includes auxiliary enterprises revenue, investment income, and all other revenue, both operating and nonoperating, not included in the numerators of Ratios 1, 2, and 3. <i>Total Revenue</i> includes operating, nonoperating, and other revenue and gains.</p> <p data-bbox="443 464 1471 695">Other Revenue as a percentage of Total Revenue in FY 2008 decreased 1-3% from the prior year at all three universities, reversing a 3-year upward trend. Over the 7-year period, this ratio has fluctuated between 13% and 18% at all three universities. In any given year, this ratio can be significantly impacted by irregular transactions such as land sales or, as is the case in FY 2008 at ASU, \$15.5 million in net insurance recovery funding related to the November 2007 fire at the Memorial Union.</p> <p data-bbox="443 728 1471 991">Other Revenue increased significantly in dollar amount at all three universities over the 7-year reporting period, reflecting the universities' success in maximizing these revenue sources and emphasizing entrepreneurial efforts throughout the universities. Auxiliary enterprises revenues represent the largest portion of this category, increasing \$50 million (58%) over the 7-year period at ASU; \$9.6 million (36%) at NAU; and \$58 million (61%) at UA. FY 2008 investment income decreased from prior year at all 3 universities due to low investment rates and decreased cash available for investment.</p>



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

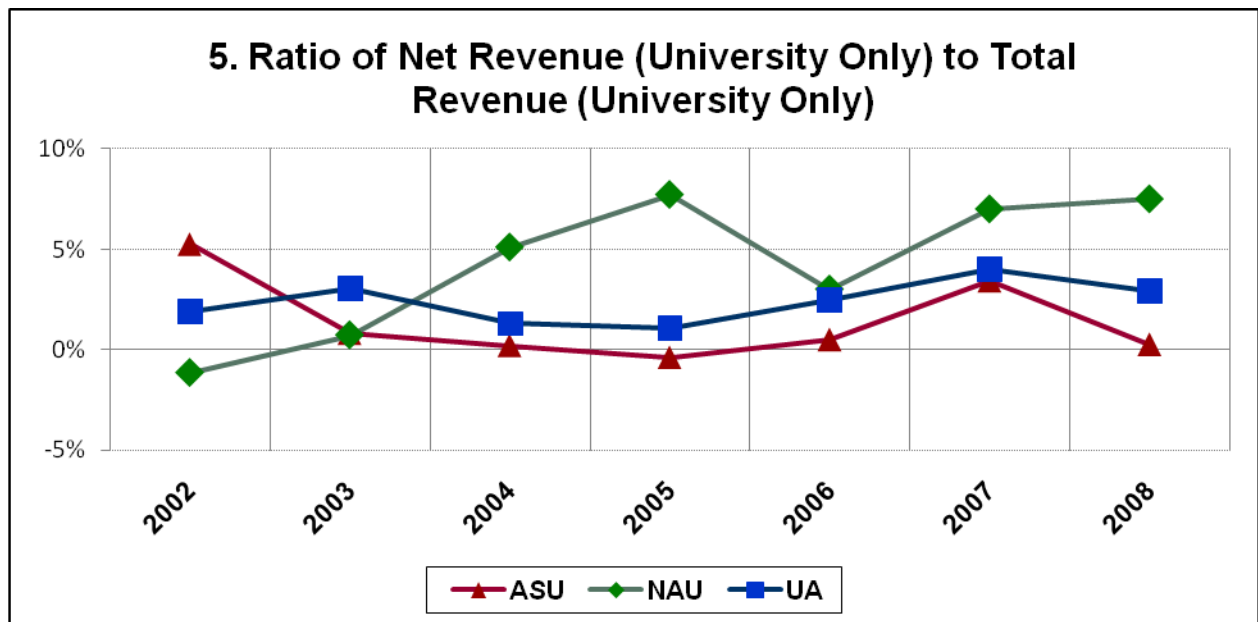


- State General Fund Appropriations
- Net Tuition and Fees
- Gifts, Grants, Contracts, and TRIF Revenue
- Other Revenue

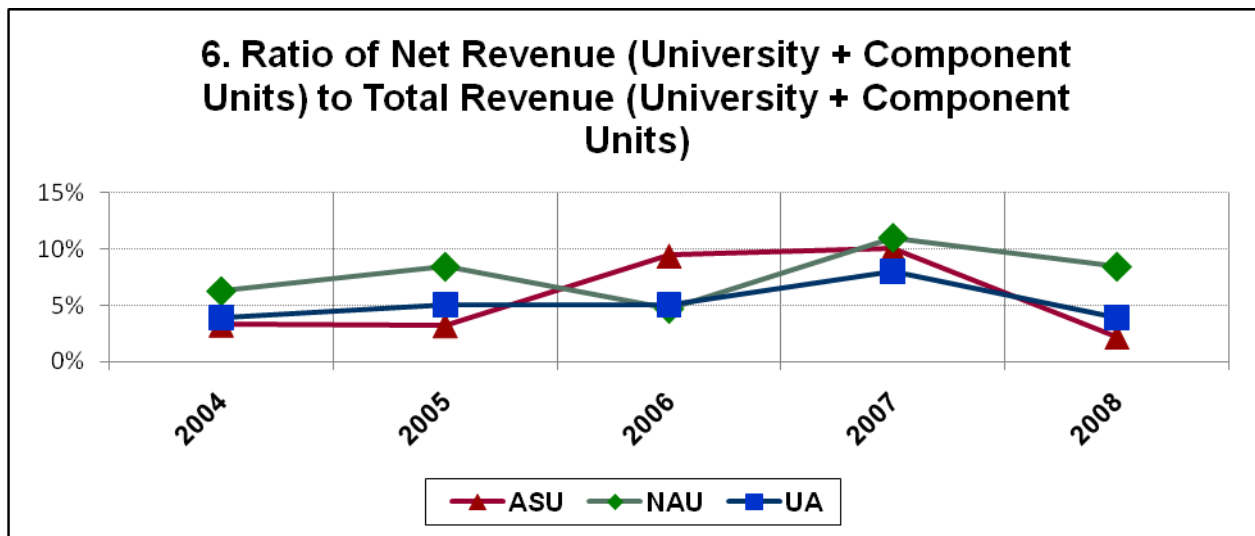
Notes:

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

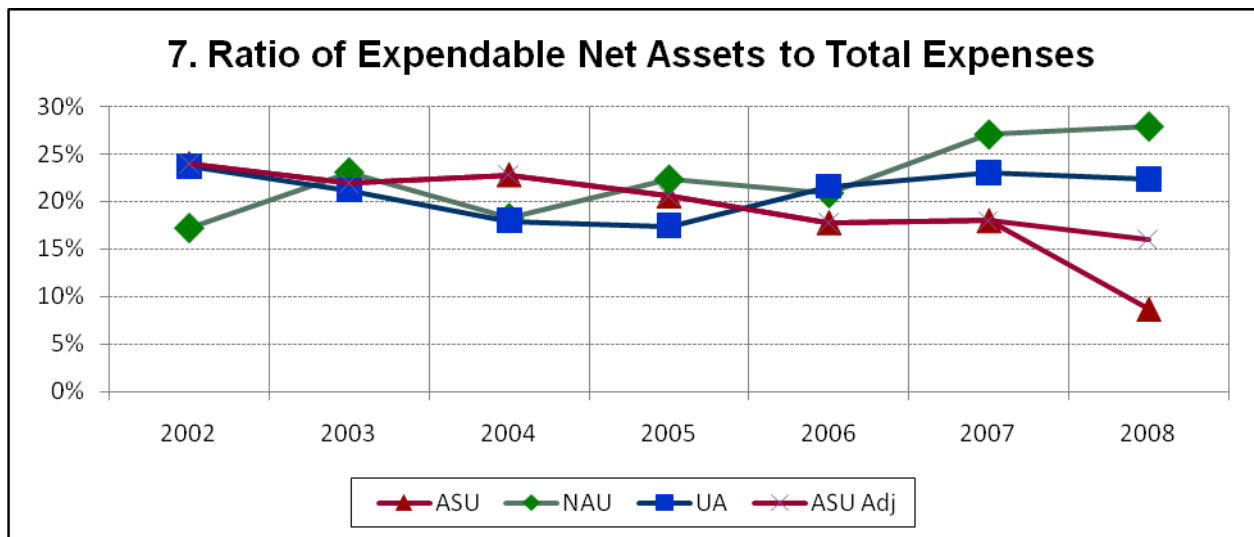
Ratio 5	Description of Ratio
<p>Net Revenue (University Only) Total Revenue (University Only)</p> <p><u>FY 2008 RATIOS</u></p> <p><u>ASU</u> <u>NAU</u> <u>UA</u> 0.3% 8% 3%</p>	<p>Element definition: <i>Net Revenue</i> equals total revenue less total expenses. <i>Total Revenue</i> includes operating, nonoperating, and other revenue and gains. Both figures are for the university only and do not include component units.</p> <p>This ratio indicates whether current year revenues were sufficient to cover current year expenses, thereby avoiding the need to deplete net assets to operate the university.</p> <p>This ratio has fluctuated over the 7-year reporting period at all three universities, but all three operated within their current year revenues in FY 2008.</p> <p>ASU's FY 2008 ratio decreased to 0.3% from 3.5% in FY 2007, finishing FY 2008 with a \$4 million excess of Total Revenue (\$1.471 billion) over Total Expenses (\$1.467 billion). This decrease reflects the tightening of budgets within ASU. NAU's FY 2008 ratio increased slightly (0.4%), finishing the year with a \$30 million excess of Total Revenue (\$400 million) over Total Expenses (\$370 million). NAU continues to demonstrate its commitment to a balanced budget and to building reserves, a significant portion which will be used to address outfitting and operation of new research and other buildings. UA's FY 2008 ratio decreased 1.5% from the prior year, finishing FY 2008 with a \$43 million excess of Total Revenue (\$1.459 billion) over Total Expenses (\$1.416 billion). UA continues to generate sufficient revenues to meet its operational needs on a year-to-year basis.</p>



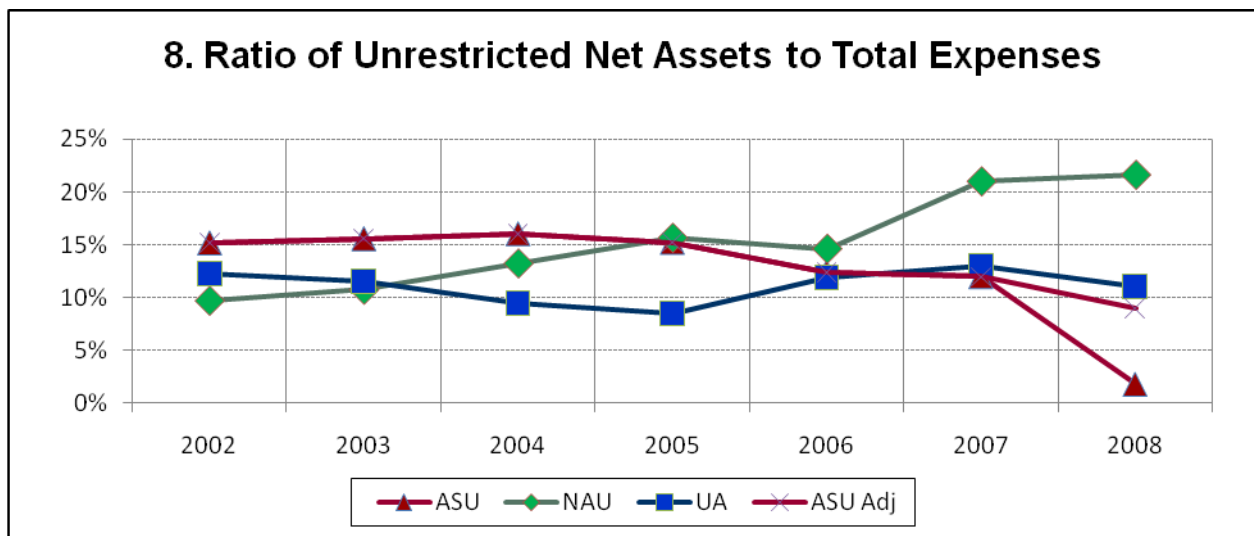
Ratio 6	Description of Ratio
<p data-bbox="159 310 412 506"> Net Revenue (University + Component Units) Total Revenue (University + Component Units) </p> <p data-bbox="168 541 402 573"><u>FY 2008 RATIOS</u></p> <p data-bbox="159 617 412 678"> <u>ASU</u> <u>NAU</u> <u>UA</u> 2% 8% 4% </p>	<p data-bbox="444 310 1468 506"> <i>Element definition:</i> Net Revenue equals total revenue less total expenses. Total Revenue includes operating, nonoperating, and other revenue and gains. Both figures are for the university <u>and</u> its component units. Reporting of financial data for component units is required under GASB 39 beginning with FY 2004 financial statements. Each university's component units are listed on page 4. </p> <p data-bbox="444 541 1468 705"> This ratio indicates whether current year revenues of the university and its component units as defined by GASB 14 and 39 were sufficient to cover current year expenses of the university and the component units, thereby avoiding the need to deplete net assets to operate the university and the component units. </p> <p data-bbox="444 741 1468 909"> Although this ratio decreased from prior year at all three universities, all three and their component units met current year expenses with current year revenues in FY 2008, along with increasing net assets. These FY 2008 ratios halted a previous upward trend, reflecting the large drops in investment income for the universities and their component units, primarily the Foundations. </p>



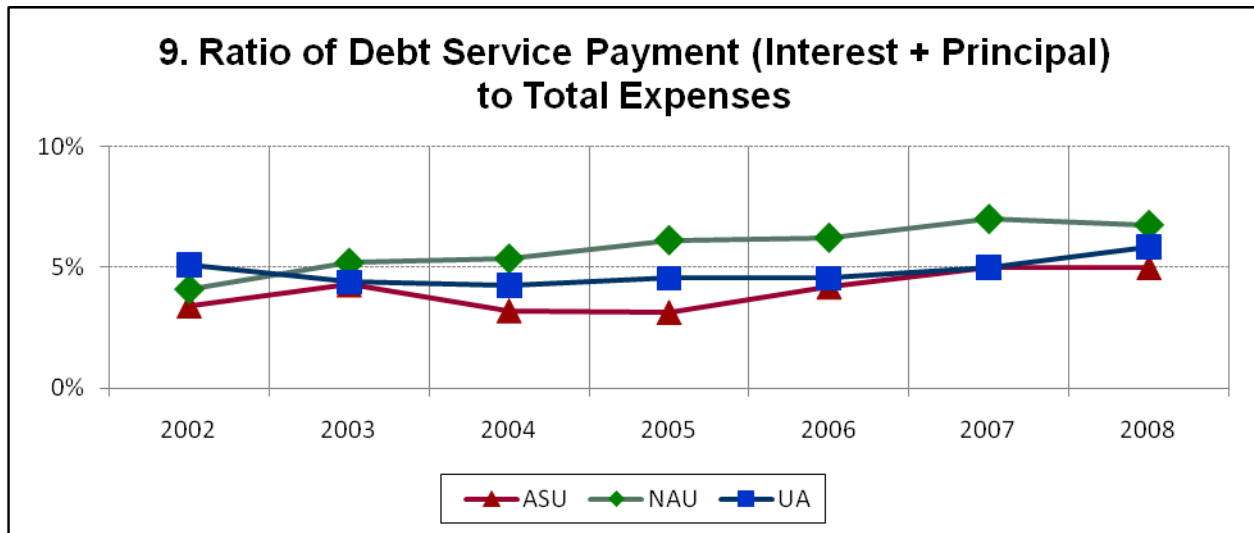
Ratio 7	Description of Ratio						
<p data-bbox="175 306 396 407">Expendable Net Assets Total Expenses</p> <p data-bbox="168 443 402 474">FY 2008 RATIOS</p> <table data-bbox="159 516 412 579"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>9%</td> <td>28%</td> <td>22%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	9%	28%	22%	<p data-bbox="440 300 1471 464">Element definition: <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="440 491 1471 621">This ratio measures whether or not expendable net assets have kept pace with total expenses and the financial strength of the universities by indicating the percentage of usable net assets at the end of the year to total expenses.</p> <p data-bbox="440 651 1471 949">ASU's ratio remained in a relatively stable range, 18%-24%, for the previous 6-year period, FY 2002-2007 but declined to 9% in FY 2008, primarily due to use of unrestricted net assets in FY 2008 to finance the Polytechnic Academic Complex. This funding was replenished by debt financing in early FY 2009. The restated ratio is 16%, consistent with the previous years. NAU's ratio increased 1% over prior year, continuing an upward trend and an increasing ability to respond to emergencies or unforeseen needs. UA's ratio decreased 1% from prior year but remained in a relatively stable range of 17%-24% over the 7-year period.</p> <p data-bbox="440 982 1471 1150">Explained differently, at June 30, 2008, ASU had approximately 5 weeks (down from 9 weeks at prior year-end) but 8 weeks restated of annual spending available from year-end expendable net assets. NAU and UA had approximately 14 and 12 weeks, respectively, of annual spending available at year-end, identical to prior year-end.</p> <p data-bbox="440 1178 1471 1268">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2008, 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>					
9%	28%	22%					



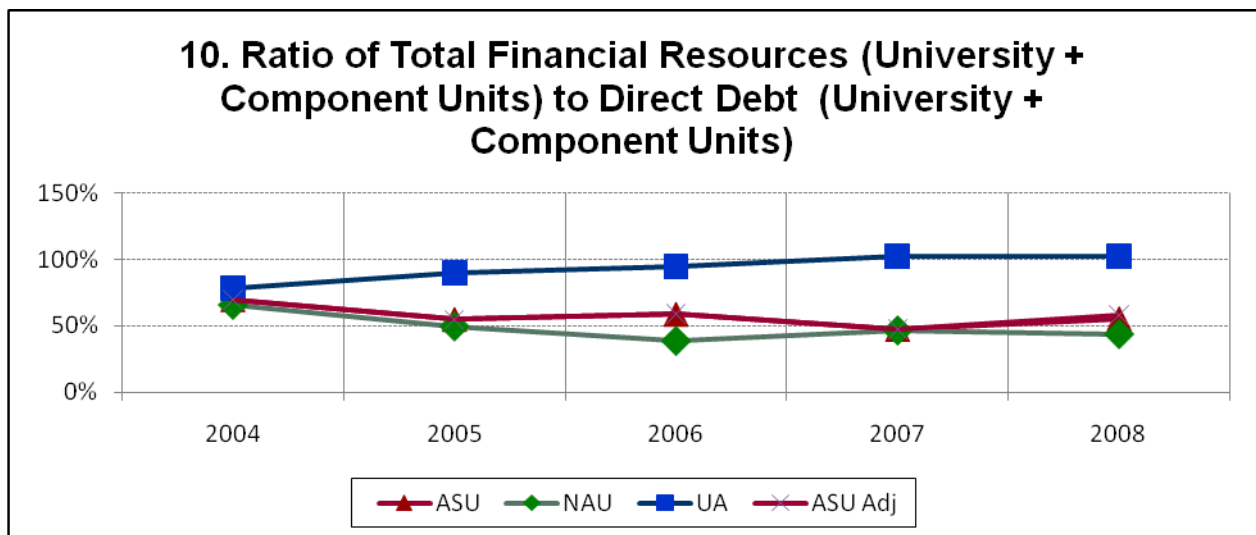
Ratio 8	Description of Ratio						
<p data-bbox="172 310 399 407">Unrestricted Net Assets Total Expenses</p> <p data-bbox="172 443 399 474">FY 2008 RATIOS</p> <table data-bbox="159 516 412 579"> <tr> <td>ASU</td> <td>NAU</td> <td>UA</td> </tr> <tr> <td>2%</td> <td>22%</td> <td>11%</td> </tr> </table>	ASU	NAU	UA	2%	22%	11%	<p data-bbox="441 310 1471 443"><i>Element definition: Unrestricted Net Assets</i> are a subset of expendable net assets (see Ratio 7) and represent those net assets that can most quickly be converted to cash. <i>Total Expenses</i> include operating, nonoperating, and other expenses and losses.</p> <p data-bbox="441 474 1471 606">This ratio measures the coverage of annual operations by the university's most liquid assets, those unrestricted net assets than can be the most quickly converted to cash. A higher percentage indicates more operating flexibility by the university.</p> <p data-bbox="441 638 1471 905">ASU's ratio of 2%, a significant drop from 12% the prior year, is impacted by the use of unrestricted net assets in FY 2008 to finance the Polytechnic Academic Complex, monies that were replenished through debt financing in early FY 2009. This ratio, restated to reflect this replenishment, is 8%, and while still a decline from prior years, it is a positive number. NAU's FY 2008 ratio of 22% continues a 7-year upward trend, indicating continued increasing operating flexibility. UA's ratio of 11% remains in a relatively constant range of 9%-13% over the 7-year period.</p> <p data-bbox="441 936 1471 1110">Explained differently, at June 30, 2008, ASU had less than 1 week (4-1/2 weeks restated) of spending coverage compared to 6 weeks at prior year-end. NAU had approximately 11 weeks of spending coverage at June 30, 2008, same as prior year-end. UA had approximately 6 weeks of spending coverage at June 30, 2008, down slightly from 6-1/2 weeks at prior year-end.</p> <p data-bbox="441 1142 1471 1243">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2008, only. The universities are "going concerns" and, therefore, can expect to receive additional revenues in subsequent years.</p>
ASU	NAU	UA					
2%	22%	11%					



Ratio 9	Description of Ratio						
<p data-bbox="196 310 375 474">Debt Service Payments (Interest + Principal) Total Expenses</p> <p data-bbox="172 510 402 541"><u>FY 2008 RATIOS</u></p> <table data-bbox="159 583 407 646"> <tr> <td><u>ASU</u></td> <td><u>NAU</u></td> <td><u>UA</u></td> </tr> <tr> <td>5%</td> <td>7%</td> <td>6%</td> </tr> </table>	<u>ASU</u>	<u>NAU</u>	<u>UA</u>	5%	7%	6%	<p data-bbox="443 310 1468 443"><i>Element definition:</i> 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.</p> <p data-bbox="443 474 1468 669">This ratio measures the burden of debt service payments relative to, or as a proportion of, overall expenses of the university. This is one of the key ratios considered by rating agencies to determine ratings for SRBs and COPs. Rating agencies generally view 10% or less as a significant indicator of satisfactory creditworthiness, thus allowing debt instruments to be sold at more favorable interest rates.</p> <p data-bbox="443 709 1468 842">At June 30, 2008, all three universities are well within the acceptable debt ratio range and demonstrate that they have adequate resources to meet existing debt requirements. Moody's and Standard & Poor's bond ratings and outlooks remain unchanged from prior year-end for all three universities.</p> <p data-bbox="443 877 1468 1104">ASU's FY 2008 debt ratio of 5.0% increased slightly over its 4.5% ratio in FY 2007 largely due to the state-funded research infrastructure debt service payments. ASU's debt ratio remained in the 3-5% range during this 7-year reporting period. NAU's FY 2008 debt ratio of 6.8% increased slightly over its 6.5% ratio at prior year-end and is at its highest point in this 7-year reporting period. UA's FY 2008 debt ratio of 6% increased 1% over prior year-end and is at its highest point in this 7-year reporting period.</p>
<u>ASU</u>	<u>NAU</u>	<u>UA</u>					
5%	7%	6%					



Ratio 10	Description of Ratio
<p data-bbox="196 275 448 506">Total Financial Resources (University + Component Units) Direct Debt (University + Component Units)</p> <p data-bbox="207 541 438 573"><u>FY 2008 RATIOS</u></p> <p data-bbox="191 617 454 678"><u>ASU</u> <u>NAU</u> <u>UA</u> 55% 44% 102%</p>	<p data-bbox="483 275 1507 537"><i>Element definition:</i> <i>Total Financial Resources</i> include restricted and unrestricted expendable and nonexpendable net assets of the university, plus permanently and temporarily restricted and unrestricted net assets of the component units, excluding net property and equipment of the component units. <i>Direct Debt</i> is the total outstanding capital debt of the university and its component units. Reporting of financial data for component units is required under GASB 39 beginning with FY 2004 financial statements.</p> <p data-bbox="483 558 1507 688">This ratio measures coverage of debt by all resources available to the university, including those of its component units. A larger percentage indicates the availability of more resources to cover total university and component unit debt.</p> <p data-bbox="483 709 1507 940">ASU's ratio of 55% (58% restated) although down 11% from prior year-end, reflects the ability of ASU and its component units to repay all outstanding debt without undue financial hardship. NAU's ratio decreased from 3% from prior year-end but reflects the ability of NAU and its component units to repay all outstanding debt without undue financial hardship. UA's FY 2008 ratio of 102%, unchanged from prior year-end, indicates the availability of university and component unit resources to pay all university and component unit debt.</p> <p data-bbox="483 961 1507 1119">Explained differently, at June 30, 2008, ASU had sufficient financial resources to pay 55% (58% restated) of the total debt of the university and component units; NAU, 44%; and UA, 102%. These percentages for all three universities indicate an ability to repay all outstanding debt without undue financial hardship.</p> <p data-bbox="483 1140 1507 1270">This ratio, as is the case for all ratios in this analysis, is valid as of June 30, 2008, only. The universities are "going concerns" and, therefore, payment of the total direct debt is not required as of June 30, 2008, but will be paid off over time.</p>



FINANCIAL RATIOS FORMULAS

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

* Effective for fiscal 2008 net property and equipment of the component units is give a value of zero since substantially all property and equipment is debt financed. This change has also been made to prior years' ratios.

ARIZONA STATE UNIVERSITY
Financial Ratios for Fiscal Years: 2002 to 2008
(dollars in millions)

Ratio	2002	2003	2004	2005	2006	2007	2008	2008
1 State General Fund Appropriations	321	312	313	336	369	430	483	
Total Revenues	833	846	935	1,044	1,172	1,358	1,471	
	38.5%	36.9%	33.5%	32.2%	31.5%	31.7%	32.8%	
2 Net Tuition and Fees Revenue	188	206	253	302	349	400	437	
Total Revenues	833	846	935	1,044	1,172	1,358	1,471	
ASU only	2.2.6%	24.3%	27.1%	28.9%	29.8%	29.5%	29.7%	
3 Gifts, Grants & Contracts, and TRIF Revenue	212	207	219	254	279	299	320	
Total Revenues	833	846	935	1,044	1,172	1,358	1,471	
ASU only.	25.5%	24.5%	23.4%	24.3%	23.8%	22.0%	21.8%	
TRIF - Technology & initiative research fund. ASU's share of the state education sales tax.								
4 Other Revenues	112	121	150	152	175	229	231	
Total Revenues	833	846	935	1,044	1,172	1,358	1,471	
ASU only	13.4%	14.3%	16.0%	14.6%	14.9%	16.9%	15.7%	
5 Net Revenues	44	7	2	(4)	6	47	4	
Total Revenues	833	846	935	1,044	1,172	1,358	1,471	
ASU only	5.3%	0.8%	0.2%	-0.4%	0.5%	3.5%	0.3%	
6 Net Revenues			32	38	131	153	37	
Total Revenues			1,036	1,182	1,400	1,602	1,663	
ASU and component units			3.1%	3.2%	9.4%	9.6%	2.2%	
7 Expendable Net Assets	186	184	213	216	208	232	127	227
Total Expenses	789	839	933	1,048	1,166	1,311	1,467	1,467
ASU only	23.6%	21.9%	22.8%	20.6%	17.8%	17.7%	8.7%	15.5%
8 Unrestricted net assets	120	131	150	160	145	155	27	127
Total expenses	789	839	933	1,048	1,166	1,311	1,467	1,467
ASU only	15.2%	15.6%	16.1%	15.3%	12.4%	11.8%	1.8%	8.7%
9 Debt Service Payments (int & princ)	27	36	29	33	49	59	74	
Total Expenses	789	839	933	1,048	1,166	1,311	1,467	
ASU only	3.4%	4.3%	3.1%	3.1%	4.2%	4.5%	5.0%	
10 Total financial resources, net			545	593	716	854	761	861
Direct debt			784	1,087	1,224	1,289	1,380	1,480
ASU and component units			69.5%	54.6%	58.5%	66.3%	55.1%	58.2%

Polytechnic financing
adjustment

NORTHERN ARIZONA UNIVERSITY
 Financial Ratios for Fiscal Years: 2003 to 2008
 (dollars in millions)

Ratio	2002	2003	2004	2005	2006	2007	2008
1 State General Fund Appropriations	112	111	112	118	125	140	160
Total Revenues	264	271	294	311	332	367	400
NAU only. Fiscal 2008 includes \$5.9 million in research infrastructure debt appropriations.	42.4%	41.0%	38.1%	37.9%	37.7%	38.1%	40.0%
2 Net Tuition and Fees Revenue	51	53	71	74	82	89	99
Total Revenues	264	271	294	311	332	367	400
NAU only	19.3%	19.6%	24.1%	23.8%	24.7%	24.3%	24.8%
3 Gifts, Grants & Contracts, and TRIF Revenue	64	67	71	76	74	83	92
Total Revenues	264	271	294	311	332	367	400
NAU only	24.2%	24.8%	24.1%	24.4%	22.3%	22.6%	23.0%
TRIF - Technology & Research Initiative Fund. NAU's share of the state education sales tax.							
4 Other Revenues	37	40	40	40	51	56	50
Total Revenues	264	271	294	311	332	367	400
NAU only	14.0%	14.8%	13.6%	12.9%	15.4%	15.3%	12.5%
5 Net Revenues	(3)	2	15	24	10	26	30
Total Revenues	264	271	294	311	332	367	400
NAU only	-1.1%	0.7%	5.1%	7.7%	3.0%	7.1%	7.5%
6 Net Revenues	19	28	19	28	16	47	35
Total Revenues	305	333	305	333	344	416	416
NAU and component units	6.2%	8.4%	6.2%	8.4%	4.7%	11.3%	8.4%
7 Expendable Net Assets	46	62	52	64	67	91	103
Total Expenses	267	269	279	287	321	341	370
NAU only	17.2%	23.0%	18.6%	22.3%	20.9%	26.7%	27.8%
8 Unrestricted net assets	26	29	37	45	47	71	80
Total expenses	267	269	279	287	321	341	370
NAU only	9.7%	10.8%	13.3%	15.7%	14.6%	20.8%	21.6%
9 Debt Service Payments (int & princ)	11	14	15	18	20	22	25
Total Expenses	267	269	279	287	321	341	370
NAU only	4.1%	5.2%	5.4%	6.3%	6.2%	6.5%	6.8%
10 Total financial resources, net	95	108	95	108	107	140	150
Direct debt	144	217	144	217	276	300	342
NAU and component units	66.0%	49.8%	66.0%	49.8%	38.8%	46.7%	43.9%

THE UNIVERSITY OF ARIZONA

Financial Ratios for Fiscal Years: 2002 to 2007

(dollars in millions)

	Ratio	2002	2003	2004	2005	2006	2007	2008
1	State General Fund Appropriations	329	324	317	334	358	390	417
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385	1,459
UA only		33%	30%	28%	28%	28%	28%	29%
2	Net Tuition and Fees Revenue	140	150	173	182	193	210	232
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385	1,459
UA only		14%	14%	15%	15%	15%	15%	16%
3	Gifts, Grants & Contracts, and TRIF Revenue	396	463	493	511	523	527	571
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385	1,459
UA only		40%	43%	43%	42%	40%	38%	39%
	TRIF - Technology & initiative research funding. UA's share of the state education sales tax.							
4	Other Revenues	127	146	166	177	221	248	223
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385	1,459
UA only		13%	13%	14%	15%	17%	18%	15%
5	Net Revenues	19	34	15	13	32	62	43
	Total Revenues	997	1,083	1,149	1,204	1,295	1,385	1,459
UA only		2%	3%	1%	1%	2%	4%	3%
6	Net Revenues	49	66	63	63	63	124	61
	Total Revenues	1,244	1,311	1,295	1,295	1,385	1,385	1,564
UA and component units		4%	5%	5%	5%	5%	8%	4%
7	Expendable Net Assets	232	222	204	207	272	299	316
	Total Expenses	978	1,049	1,134	1,190	1,262	1,323	1,416
UA only		24%	21%	18%	17%	22%	23%	22%
8	Unrestricted net assets	120	121	107	101	150	166	157
	Total expenses	978	1,049	1,134	1,190	1,262	1,323	1,416
UA only		12%	12%	9%	8%	12%	13%	11%
9	Debt Service Payments (int & princ)	46	46	48	54	58	69	83
	Total Expenses	978	1,049	1,134	1,190	1,262	1,323	1,416
UA only		5%	4%	4%	5%	5%	5%	6%
10	Total financial resources, net	628	707	806	896	896	907	907
	Direct debt	808	789	854	878	878	886	886
UA and component units		78%	90%	94%	102%	102%	102%	102%