



NORTHERN ARIZONA UNIVERSITY

**2012 Debt Capacity Review
In conjunction with 2013/2015 CIP**

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**NORTHERN ARIZONA UNIVERSITY
ANNUAL ASSESSMENT OF DEBT CAPACITY**

(Amounts in Millions)

This summary Annual Assessment of Debt Capacity demonstrates Northern Arizona University's ability to finance additional capital construction through debt instruments. A complete debt capacity report is available from the Arizona Board of Regents Central Office.

BACKGROUND:

- NAU must demonstrate its ability to service debt (pay principal and interest) through the debt capacity reports for projects proposed for debt financing. The Comptroller's Office projects revenues and expenditures through FY 2021 using historical data from the audited financial statements and cash flow projections from various internal sources.
- The outstanding debt for NAU at the end FY 2012 is \$ 423.4 million. Total annual debt service is \$24.8 million, or about 5.80 percent of total projected expenses.
- Based upon NAU's proposed funding sources for projects in the FY 2014-2016 CIP the projected outstanding debt at the end of FY 2013 is estimated to be approximately \$486.0 million (with SPEED³ projects), with total annual debt service of \$25.5 million (5.68 percent of projected total expenses). If the SPEED projects are fully implemented, the total annual debt service is estimated to be \$30.3 million (6.75 percent of total projected expenses).

<i>Existing</i> Debt Service as a Percentage of Total Expenses (Estimated as of FY12 year – end) (1)	<i>Projected</i> Debt Service as a Percentage of Total Expenses, excluding/including SPEED project financings (2)
5.80%	5.68% /6.75%

(1) Note: Ratios are based on Total Expenses

NORTHERN ARIZONA UNIVERSITY
ANNUAL ASSESSMENT OF DEBT CAPACITY
(Amounts in Millions)

- If the University ends the fiscal year with positive net revenue, net assets at the beginning of the next fiscal year will increase.

Actual Average Annual Net Assets, (4, 5) FY07-FY11	Unaudited Current Year Net Asset balance FY2012	Average Net Assets FY12
\$321M	\$433M	

4) Note: Total net asset balances. Net asset balances include assets (cash, accounts receivable, and inventories) less liabilities (accounts payable and other liabilities).
5) The FY2012 financial data are preliminary, may not include all adjusting entries, and is unaudited.

Northern Arizona University
 Supplemental Debt Information
 Bonds and Long Term Debt
 (Dollars in Thousands)

Estimated 2012

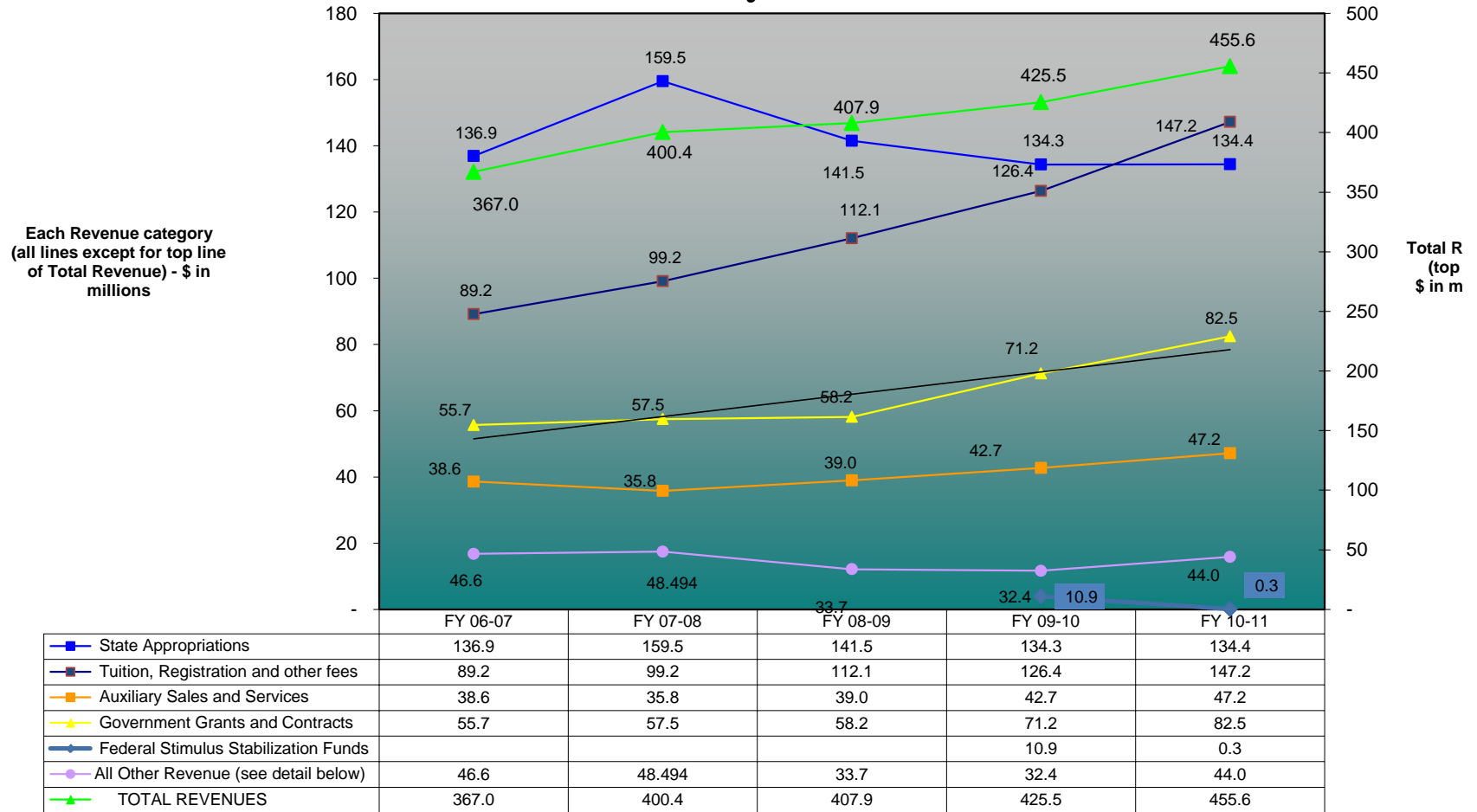
Issue	Series	Original Issue	Average Interest Rate	Date Bonds Are First Callable	Final Maturity	Principal Balance Outstanding At June 30, 2012	Budgetary Debt Service Commitments for Fiscal Year					
							2013	2014	2015	2016	2017	Thereafter
System Revenue Bonds:												
Systems revenue refunding	2004	39,675	4.75%	6/1/2015	6/1/2034	\$ 20,855	\$ 4,931	\$ 4,960	\$ 2,482	\$ 2,484	\$ 1,670	\$ 10,042
Systems revenue	2005	15,255	4.69%	6/1/2015	6/1/2040	13,845	901	901	900	899	902	20,711
Systems revenue	2006	42,260	4.69%	6/1/2018	6/1/2034	41,965	2,043	2,051	2,048	2,050	2,851	60,365
Systems revenue	2007	38,695	4.93%	6/1/2017	6/1/2037	35,010	2,472	2,470	2,471	2,471	2,468	49,407
Systems revenue	2008	43,130	5.04%	6/1/2019	6/1/2038	38,905	3,032	2,713	2,705	2,706	2,706	56,798
Systems revenue A	2009	108,860	4.21%	6/1/2021	6/1/2039	108,860	6,889	6,889	6,889	6,889	9,924	197,210
Systems revenue B	2009	5,640	5.00%	N/A	6/1/2016	5,640	282	282	3,032	3,035	7,132	-
Systems revenue	2010	64,785	4.02%	Optional	8/1/2030	64,785	3,859	3,859	3,859	3,859		91,163
Systems revenue	2012	23,955	4.46%		6/1/2041	23,955	1,476	1,476	1,476	1,476	1,474	35,399
Total Revenue Bonds		<u>\$ 293,515</u>				<u>\$ 353,820</u>	<u>\$ 25,885</u>	<u>\$ 25,601</u>	<u>\$ 25,862</u>	<u>\$ 25,867</u>	<u>\$ 29,127</u>	<u>\$ 521,095</u>
Long Term Debt:												
U.S. Dept of Ed Loan	1985	1,470	3.00%		6/13/2015	222	78	78	78			
Pine Ridge Village/McKay LLC	2008	13,225	4.61%		6/1/2033	34,590	715	780	845	915	985	30,350
North Campus Facilities LLC	2008	12,400	4.89%		6/1/1936	11,420	270	280	290	305	325	9,950
Energy Performance Contract	2012	12,420	3.53%		6/1/2027	12,420	406	438	1,200	1,220	1,220	11,996
Certificates of Participation	2004	37,585	4.85%		9/1/2030	32,680	2,655	2,656	2,652	2,655	2,655	37,153
Certificates of Participation	2005	40,255	4.65%		9/1/2030	34,815	2,783	2,783	2,784	2,786	2,784	38,933
Certificates of Participation	2006	12,445	4.35%		9/1/2016	2,410	74	59	43	26	9	-
Total Long-Term Debt		<u>129,800</u>				<u>\$ 128,557</u>	<u>\$ 6,981</u>	<u>\$ 7,074</u>	<u>\$ 7,891</u>	<u>\$ 7,907</u>	<u>\$ 7,977</u>	<u>\$ 128,382</u>
Total Outstanding						<u>\$ 482,377</u>	<u>\$ 32,866</u>	<u>\$ 32,675</u>	<u>\$ 33,753</u>	<u>\$ 33,774</u>	<u>\$ 37,105</u>	<u>\$ 649,476</u>
Refunded Bonds:												
System revenue	2003	31,000	5.50%	6/1/2014		26,645						
System revenue	2004	39,675	4.75%	6/1/2015		8,295						
Certificates of Participation	2006	12,445	4.50%	9/1/2016		8,720						
Total Refunded Bonds		<u>\$ 70,675</u>				<u>\$ 43,660</u>						

Note: Debt service for the University's refunded bonds is paid from established irrevocable trusts.

NORTHERN ARIZONA UNIVERSITY
REVENUES, EXPENSES AND NET ASSET HISTORY
FY06-07 THROUGH FY10-FY11
(Amounts in Millions)

REVENUES	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	Preliminary Unaudited FY 11-12	Actual 5 YRS AVG. Growth Rate
State Appropriations	136.9	159.5	141.5	134.3	134.4	109.6	0.1%
Federal Stimulus Stabilization Funds			23.5	10.9	0.3	-	-75.4%
Tuition, Registration and other fees	89.2	99.2	112.1	126.4	147.2	157.8	13.4%
Government Grants and Contracts	55.7	57.5	58.2	71.2	82.5	78.6	10.7%
Technology and Research Initiative Fund (TRIF)	16.9	16.4	12.2	10.9	11.2	11.2	-9.1%
Auxiliary Sales and Services	38.6	35.8	39.0	42.7	47.2	45.8	5.4%
Investment Income	8.9	4.7	(1.1)	4.2	3.0	2.7	-169.7%
Private Gifts, Grants and Contracts	9.4	14.0	12.4	12.9	9.4	12.5	3.6%
State Lottery Allocation Proceeds						2.5	
Other	11.4	13.4	10.2	11.9	20.4	21.9	20.4%
TOTAL REVENUES	367.0	400.4	407.9	425.5	455.6	442.6	5.6%
EXPENSES							
Operating Expenses							
Education and General	279.3	308.0	305.5	302.5	333.4	338.7	4.7%
Auxiliary Enterprises	33.5	28.6	28.7	29.3	34.4	37.1	1.3%
Depreciation	17.9	18.9	20.7	21.6	22.0	27.3	5.3%
Interest Expense on Debt	10.5	12.2	13.4	14.5	14.0	22.9	7.7%
Other Expenses	0.0	2.2	0.1	0.8	2.7	1.5	245.1%
TOTAL EXPENSES	341.2	369.9	368.4	368.6	406.5	427.5	4.6%
INCREASE/DECREASE IN NET ASSETS	25.8	30.5	39.5	56.9	49.1	15.1	19.5%
<hr/>							
NET ASSETS AT BEGINNING OF YEAR	210.4	242.0	272.4	311.9	368.8	417.9	15.1%
NET ASSETS AT END OF YEAR	236.2	272.4	311.9	368.8	417.9	433.0	15.3%

NAU Revenue History - Last Five Years



All Other Revenue Detail

	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11
Investment Income	8.9	4.7	-1.1	4.2	3.0
Private Gifts, Grants and Contracts	9.4	14.0	12.4	12.9	9.4
Technology & Research Incentive Fund	16.9	16.4	12.2	10.9	11.2
Other (Fed. Approp, Sales, Other)	11.4	13.4	10.2	10.2	20.4
All Other Revenue	46.6	48.5	33.7	38.1	44.0

Note: Government Grants and Contracts includes Indirect Costs recovered.

**NORTHERN ARIZONA UNIVERSITY
2012 DEBT CAPACITY REVIEW - PROJECTION ASSUMPTIONS**

Northern Arizona University (NAU) used the following assumptions to prepare this review:

REVENUES

State Appropriation

The definition of state appropriation is state general fund revenues appropriated to NAU.

The state appropriation for fiscal year 2012-2013 is expected to be \$100.1M and \$106.0M with the Research Infrastructure.

Future year appropriations are estimated to include parity increases of \$3.3M through FY17 and 4% performance funding increases starting in FY14.

Federal Stimulus Stabilization Funds

State allocation of State Fiscal Stabilization Funds to NAU through the American Recovery and Reinvestment Act.

Tuition and Fees

For fiscal year 2011-2012 tuition and fees revenue increased 7.2 percent. The average annual revenue growth rate is 13.4 percent for the last five years.

The university is projecting a 2.5 percent increase in fiscal year 2013 and beyond based on planned enrollment growth, mix, volume, and rate increases.

Future increases have been estimated at 6 percent due to anticipated changes and rates in enrollment growth in any given year.

Governmental Grants and Contracts

The growth rate for governmental grants and contracts is estimated 1.8% in FY13 and to be 4 percent annually thereafter.

Auxiliary Sales and Services

A 9.4% growth rate has been projected for FY13 and 4% thereafter.

Investment and Income

Investment income is projected to remain flat through FY15. An increase of 4 percent is projected in FY16 and after annually based on investable dollars and interest rates increasing modestly and remaining fairly constant.

Private Gifts, Grants and Contracts

Including gifts, grants, and contracts for scholarships, endowments, and plant facility additions. A slight 1.6% percent decline has been assumed for FY13 and increases of 4% thereafter annually.

Technology and Research Initiative Fund

This revenue is a state share sales tax levy approved by the Arizona voters under proposition 301 for the purpose of funding K-12 schools, community colleges, and universities in Arizona. Revenues are expected to decrease 1.8% in FY13, increase 3.6% in FY14, decrease 2.6% in fiscal year 2015 and remain flat in FY16. For FY17 and after a growth rate of increase of 3% is assumed.

Other

A growth rate of 10 percent is assumed.

EXPENDITURES

Education and General Expenditures

The increase in education and general expenditures is projected to generally follow the increase in legislative appropriations and tuition and fee increases. The university is projecting a 5.0 percent growth rate in fiscal year 2013 an increase of increases of 4.5 percent in the years beginning 2014.

Auxiliary

Expenditures for Auxiliary Enterprises are assumed to grow at a rate of 4%.

Depreciation

Depreciation is expected to increase 2.6% in FY 13 as new facilities are constructed and completed. An increase of 2% has been projected after that.

Interest Expense on Debt

Consists of interest expense on the University's outstanding debt obligations. Projected interest expense is based on future interest payment requirements of current debt and interest payments of current debt and interest expense on new debt issuances for new capital projects.

**NORTHERN ARIZONA UNIVERSITY
REVENUE AND EXPENSES GROWTH RATES**

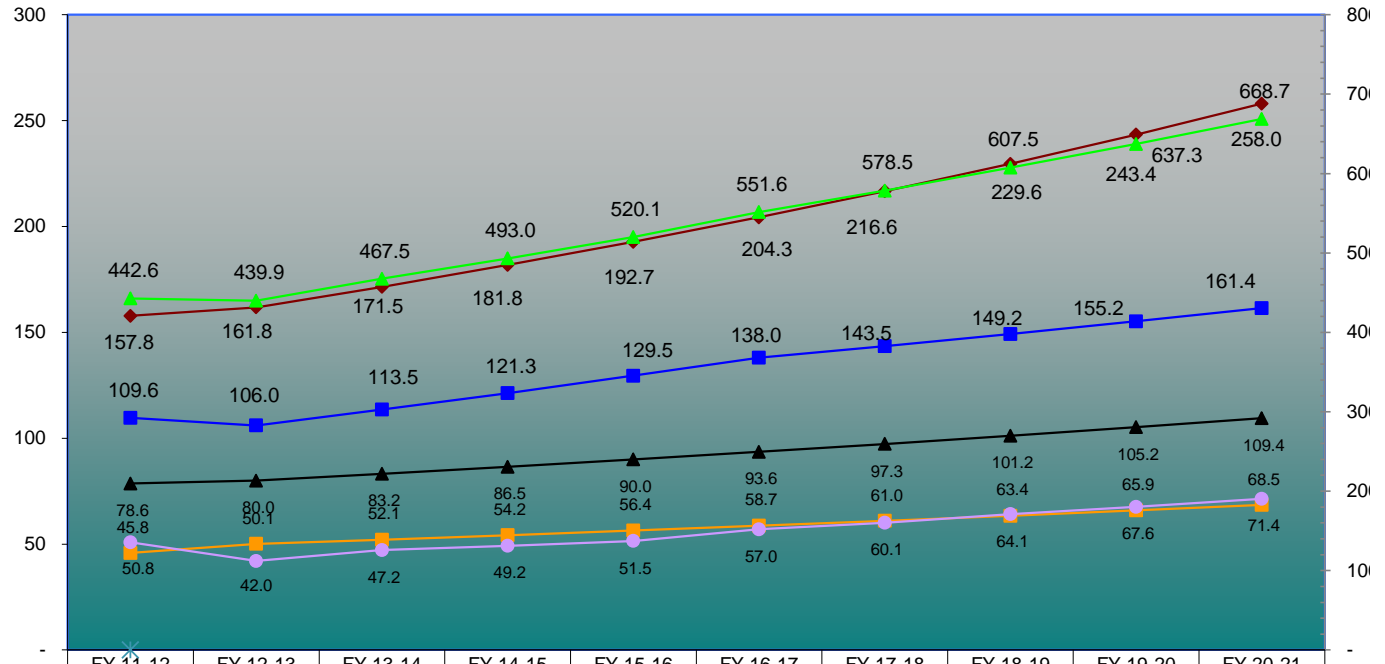
	Estimated	Projected								
	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
REVENUES										
State Appropriations	-18.5%	-3.3%	7.1%	6.9%	6.8%	6.6%	4.0%	4.0%	4.0%	4.0%
Tuition, Registration and other fees	7.2%	2.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
Government Grants and Contracts (UR)	-4.7%	1.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Auxiliary Sales and Services	-3.0%	9.4%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Investment Income	-10.0%	0.0%	0.0%	0.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Private Gifts, Grants and Contracts	33.0%	-1.6%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Other	7.4%	-36.1%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
Technology and Research Initiative Fund (TRIF)	0.0%	-1.8%	3.6%	-2.6%	0.0%	3.0%	3.0%	3.0%	3.0%	3.0%
State Lottery Allocation Proceeds	0.0%	-20.0%	145.0%	6.1%	0.0%	49.2%	0.0%	8.2%	-1.0%	0.0%
EXPENDITURES										
Education and General	1.6%	5.0%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Auxiliary	7.8%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Depreciation	24.1%	2.6%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Interest Expense On Debt	63.6%	-14.0%	14.2%	-1.8%	-1.9%	-2.1%	-2.6%	-3.1%	-3.5%	-3.9%
Other	-44.4%	0.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%

Notes:

FY2011-12 growth rates are calculated from preliminary and unaudited financial data.

NAU Revenue Projections

Each Revenue Category
(all lines except for top
line of Total Revenues)
\$ in millions



State Appropriations	109.6	106.0	113.5	121.3	129.5	138.0	143.5	149.2	155.2	161.4
Tuition, Registration and other fees	157.8	161.8	171.5	181.8	192.7	204.3	216.6	229.6	243.4	258.0
Auxiliary Sales and Services	45.8	50.1	52.1	54.2	56.4	58.7	61.0	63.4	65.9	68.5
Government Grants and Contracts	78.6	80.0	83.2	86.5	90.0	93.6	97.3	101.2	105.2	109.4
All Other Revenue (see detail below)	50.8	42.0	47.2	49.2	51.5	57.0	60.1	64.1	67.6	71.4
Federal Stimulus Stabilization Funds	-	-	-	-	-	-	-	-	-	-
TOTAL REVENUES	442.6	439.9	467.5	493.0	520.1	551.6	578.5	607.5	637.3	668.7

All Other Revenue Detail

	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Investment Income	2.7	2.7	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.3
Private Gifts, Grants and Contracts	12.5	12.3	12.8	13.3	13.8	14.4	15.0	15.6	16.2	16.8
Other (Fed. Approp, Sales, Other)	11.2	11.0	11.4	11.1	11.1	11.4	11.7	12.1	12.5	12.9
Technology & Research Incentive Fund	21.9	14.0	15.4	16.9	18.6	20.5	22.6	24.9	27.4	30.1
State Allocation Lottery Proceeds	2.5	2.0	4.9	5.2	5.2	7.8	7.8	8.4	8.3	8.3
All Other Revenue	50.8	42.0	47.2	49.2	51.5	57.0	60.1	64.1	67.6	71.4

Note: Government Grants and Contracts includes Indirect Costs recovered.

NORTHERN ARIZONA UNIVERSITY
REVENUES, EXPENSES AND NET ASSET PROJECTIONS
(Amounts in Millions)

	Preliminary		Projected								
	Unaudited	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20	FY 20-21
Revenues:											
State Appropriations		109.6	106.0	113.5	121.3	129.5	138.0	143.5	149.2	155.2	161.4
Federal Stimulus Stabilization Funds		-									
Tuition, Registration and other fees		157.8	161.8	171.5	181.8	192.7	204.3	216.6	229.6	243.4	258.0
Government Grants and Contracts		78.6	80.0	83.2	86.5	90.0	93.6	97.3	101.2	105.2	109.4
Auxiliary Sales and Services		45.8	50.1	52.1	54.2	56.4	58.7	61.0	63.4	65.9	68.5
Investment Income		2.7	2.7	2.7	2.7	2.8	2.9	3.0	3.1	3.2	3.3
Private Gifts, Grants and Contracts		12.5	12.3	12.8	13.3	13.8	14.4	15.0	15.6	16.2	16.8
Technology and Research Initiative Fund (TRIF)		11.2	11.0	11.4	11.1	11.1	11.4	11.7	12.1	12.5	12.9
Other		21.9	14.0	15.4	16.9	18.6	20.5	22.6	24.9	27.4	30.1
State Lottery Allocation Proceeds*		2.5	2.0	4.9	5.2	5.2	7.8	7.8	8.4	8.3	8.3
Total Revenues		442.6	439.9	467.5	493.0	520.1	551.6	578.5	607.5	637.3	668.7
Expenses:											
Operating											
Education and General		338.7	355.5	371.5	388.2	405.7	424.0	443.1	463.0	483.8	505.6
Auxiliary Enterprises		37.1	38.6	40.1	41.7	43.4	45.1	46.9	48.8	50.8	52.8
Depreciation		27.3	28.0	28.6	29.2	29.8	30.4	31.0	31.6	32.2	32.8
Interest Expense on debt		22.9	19.7	22.5	22.1	21.7	21.2	20.7	20.0	19.3	18.6
Other Expenses		1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5
Sub-total Expenses		427.5	443.3	464.2	482.7	502.1	522.2	543.2	564.9	587.6	611.3
Debt Financed Capital Acquisition Interest/Depreciation											
Interest Expense			3.3	4.8	4.9	4.9	4.9	4.8	4.8	4.8	4.7
Depreciation				2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Total Expenses		427.5	446.6	471.7	490.4	509.8	529.9	550.7	572.5	595.2	618.8
Total Revenue over (under) total expenses		15.1	(6.7)	(4.2)	2.6	10.3	21.7	27.7	35.0	42.2	49.9
Net Assets											
Beginning Balance at 7/1		417.9	433.0	426.3	422.1	424.7	435.0	456.7	484.4	519.5	561.6
Ending Balance At 6/30		433.0	426.3	422.1	424.7	435.0	456.7	484.4	519.5	561.6	611.5
Debt Services:											
Existing Debt Service**		24.8	25.5	25.2	25.5	25.5	25.5	25.1	25.1	25.1	24.3
Existing Debt Service SPEED		2.5	2.5	2.5	2.5	2.5	5.7	5.7	5.6	5.5	5.5
New Debt Service for Non-SPEED projects					-	-	-	-	-	-	-
New Debt Service for SPEED projects			2.3	4.0	4.0	4.0	4.0	4.9	4.9	4.9	4.9
TOTAL DEBT SERVICE		27.3	30.3	31.7	32.0	32.0	35.2	34.8	35.6	35.5	34.7

* Lottery revenue allocation for SPEED projects financing per HB2211. Lottery revenues are estimated to be 80% of total estimated debt service for the fiscal year.

** Net of the Federal Build America Bonds Subsidy.

NORTHERN ARIZONA UNIVERSITY
 PROJECTED DEBT SERVICE AS A PERCENTAGE OF TOTAL EXPENSES
 (Amounts in Millions)

Fiscal Year	Projected Total Expenses	Total Debt			Outstanding End of Yr. Balance *	Annual net SRBS & COPs Debt Service	Annual SRBS & COPs Debt Service With SPEED	Bonds and COPS Debt Service as a % of Total Expenditures	
		Beginning Balance	Estimated New Debt	Debt Prin Retirement				Without SPEED	With SPEED
2011/12	427.5	416.5	24.0	17.1	423.4	24.8	27.3	5.80%	6.39%
2012/13	448.6	423.4	71.9	9.3	486.0	25.5	30.3	5.68%	6.75%
2013/14	471.7	486.0	0.0	9.4	476.6	25.2	31.7	5.34%	6.72%
2014/15	490.4	476.6	0.0	10.1	466.6	25.5	32.0	5.20%	6.53%
2015/16	509.8	466.6	0.0	10.5	456.0	25.5	32.0	5.01%	6.29%
2016/17	529.9	456.0	0.0	11.0	445.0	25.5	35.2	4.81%	6.64%
2017/18	550.7	445.0	0.0	11.1	434.0	25.1	34.8	4.56%	6.32%
2018/19	572.5	434.0	0.0	11.5	422.4	25.1	35.6	4.38%	6.22%
2019/20	595.2	422.4	0.0	12.1	410.4	25.1	35.5	4.22%	5.96%
2020/21	618.8	410.4	0.0	11.7	398.7	24.3	34.7	3.93%	5.61%
Total			<u>95.9</u>	<u>113.7</u>					

* Includes all COPS and BONDS and SPEED bonds

Note: FY 2011-2012 financial statements are preliminary and unaudited. Final adjustments (if any) are not included.

Additional debt capacity based on the maximum debt ratio percentages is as follows (based on assumed 30 year financing at 5%):

Total debt capacity (without SPEED)	\$ 160 mil
Total debt capacity (with SPEED)	\$ 80

ASU has guaranteed payment of the ASU Research Park (ASURP) bonds. Total debt service for the