Financial Analysis for UCA

The purpose of this report is to offer key ratios and financial data that will give an indication of the financial health of our University. This report is a result of my experiences as Vice President of Finance at UCA and as State Bank Commissioner. In both instances, I've observed organizations making poor decisions because of the lack of information. In my opinion, if these organizations had been properly informed, they would have made different decisions, and the outcomes that affect people and the organizations, may have been different.

I want to make one point very clear. The purpose of this report is not to tell the Board of Trustees what they can or cannot do. The purpose of this report is to point out strengths and weaknesses. If the Board is made aware of weaknesses and wants to continue, that is fine. One problem may have been that previous boards were not fully aware of these indicators and may have made decisions without all of the financial information. I offer an example of when I was the State Bank Commissioner and was in an exit interview with the FDIC in a community bank. The FDIC told the Bank's Board that they had entirely too many loans to one certain type industry. This is called concentration of credit. The president of the bank complained, "That is all we do here. I don't have any other loans." The FDIC Examiner in charge said, "I'm not telling you to stop making those loans. I'm telling you to be aware of the risk." That is the purpose of this report. Be aware of the risks.

COMPOSITE FINANCIAL INDEX (CFI)

There are four key financial questions that institutions need to ask themselves.

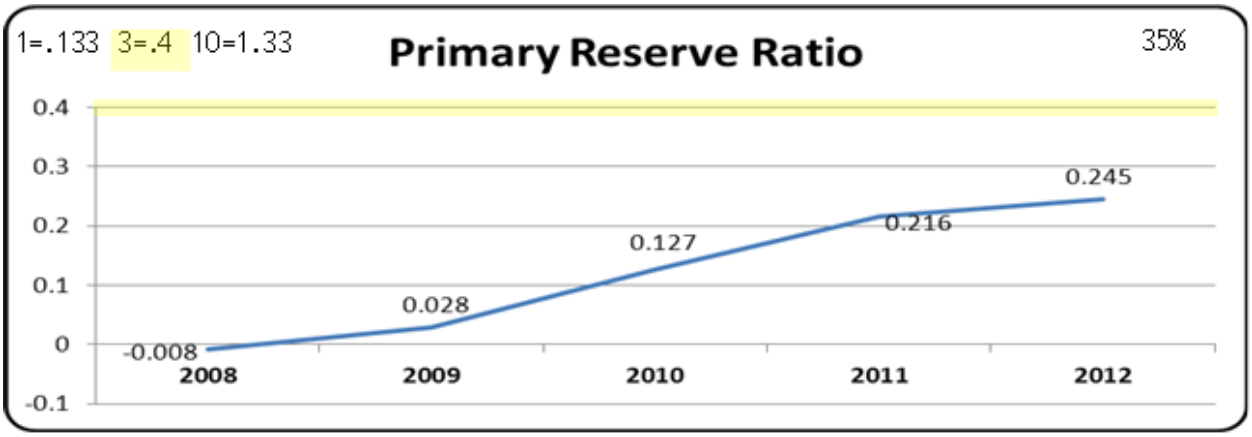
1. Are resources sufficient and flexible enough to support the mission?
2. Are resources, including debt, managed strategically to advance the mission?
3. Does asset performance and management support the strategic direction?
4. Do operating results indicate the institution is living within the available resources?

It is generally accepted that the following five ratios offer a good overall financial measurement of an institution. These five ratios are by far the most important ratios you will see in this report. The charts and information that follow these five key indicators are back-up and further information. Those charts and information will add clarity and explanation to these five ratios.

The CFI includes four commonly used financial ratios:
Primary Reserve Ratio – A measure of the level of financial flexibility
Net Operating Revenues Ratio – A measure of the operating performance
Return on Net Assets Ratio – A measure of overall asset return and performance
Viability Ratio – A measure of the ability to cover debt with available resources

CFI Elements

Primary Reserve Ratio



If all revenue stopped, what amount of expendable resources would be available. 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. In this case, the total resources that an institution could spend on operations (expendable net assets) are divided by the total expenses for the year. So if the funds that could be spent were $4 million and total expenses were $2 million, the ratio would be 2.0 (4 divided by 2). If it were turned around, and funds that could be spent were $2 million and total expenses over the year were $4 million, the ratio would be 0.5 (2 divided by 4). The most obvious interpretation of this is that with a ratio of 2.0 the institution in the first scenario could exist for two years with no additional revenue before all the expendable resources were gone, while the institution in the second scenario could operate for six months. No institution would ever want to do this, of course**. The real significance is that a ratio is 0.15 would mean funds for about two months of operation**. In this case the institution will probably need to borrow short-term to make payments, and it does not have the resources it needs to maintain the physical plant and to invest in the future**. The Higher Learning Commission recommends a primary reserve ratio of at least 0.4 or better**. **The KPMG benchmark is 0.400.**

The university's FY 2012 ratio of .245 when weighted represents expendable net assets available to cover 2.94 months of mission driven expenditures. **KPMG's suggests that reserves of about 5 months of expenses are needed to carry on a reasonable level of facilities maintenance and appear capable of managing modest unforeseen adverse financial events**.

The below chart compares the University's Primary Reserve ratio for each of the years to the IPEDS and Arkansas averages for this ratio:

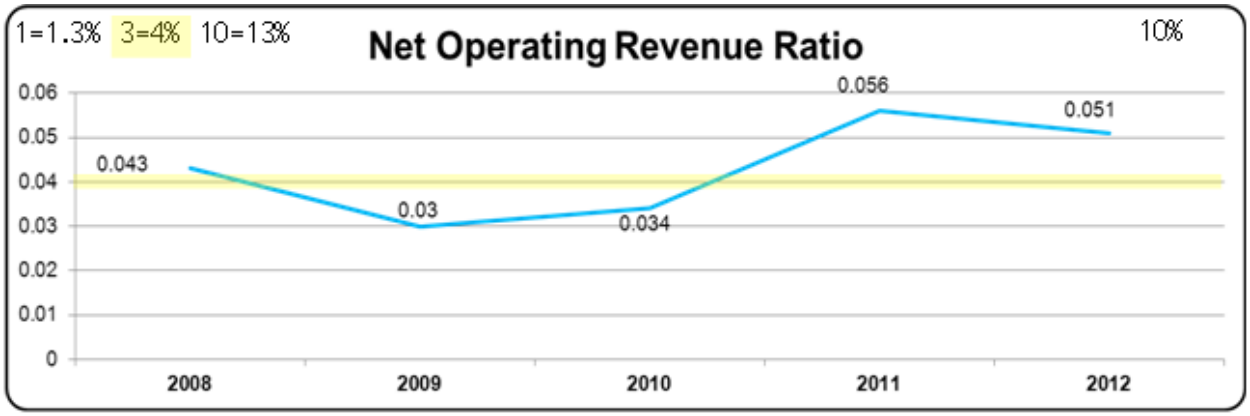
FY	2008	2009	2010	2011	2012
UCA	-0.008	0.028	0.127	0.216	0.245
IPEDS*	0.292	0.249	0.298	0.346	-
Arkansas**	0.341	0.302	0.330	0.317	0.394

**IPED schools include: Eastern Illinois, Western Kentucky, Appalachian State, and Middle Tennessee.*

***Arkansas schools include: Arkansas Tech, UALR, and ASU-Jonesboro.*

Net Operating (Operating Margin) Ratio is calculated as operating income (loss)+net non-operating revenues/operating and non-operating income. **A positive 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. A small deficit in a particular year may be relatively unimportant if the institution is financially strong and is aware of the causes of the deficit and has an active plan in place that cures the deficit. **A target of at least 2% to 4% is a goal over an extended time period, although fluctuations from year to year are likely.**

The primary reason that institutions need to generate some level of surplus over long periods of time is because operations are one of the sources of liquidity and resources for reinvestment in institutional initiatives. Conversely, generating a known deficit in the short term may well be the best strategic decision that a board makes, if it is an affordable investment in its future and the deficit will clearly be eliminated through specific actions.



A comparison of UCA's Net Operating Revenue ratio compared to the IPED schools average and the Arkansas schools average is presented below:

FY	2008	2009	2010	2011	2012
UCA	0.043	0.030	0.034	0.056	0.051
IPEDS*	0.032	0.012	0.055	0.060	-
Arkansas**	0.012	0.015	0.047	0.038	0.040

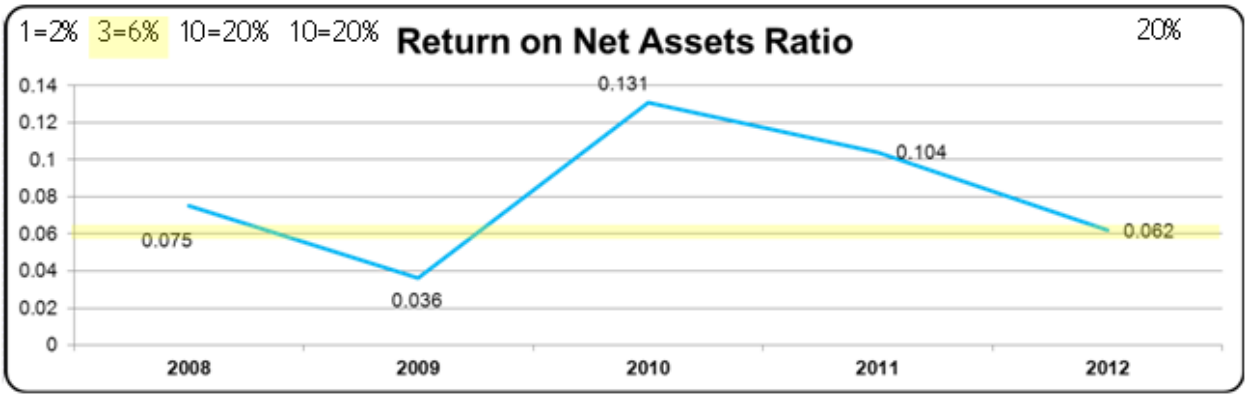
**IPED schools include: Eastern Illinois, Western Kentucky, Appalachian State, and Middle Tennessee.*

***Arkansas schools include: Arkansas Tech, UALR, and ASU-Jonesboro.*

A positive number will generally indicate a year when revenues outpaced expenditures. **The KPMG benchmark is 0.04 which suggests a spending rate of 4 to 6 percent for public institutions that do not have a set spending rate**. In FY 2012 the increase was slightly less than in the previous year.

Return on Net Assets Ratio is calculated as the change in net assets/net assets. This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. Both unforeseen and planned events can and will affect the return on net assets ratio, and some years the ratio may be below the recommended level of 3% – 4% above inflation. Occasional drops in the strength factor of this ratio, however, are not a cause for concern if the

financial reason for the drop is understood and it is a one-time financial event from which the institution can recover. **If the return on net assets ratio is not 3% – 4% above inflation for a period of time, you should be concerned. The KPMG benchmark is 0.06 or 6% to establish a rate of return in excess of the growth in total expenses.**



The University's Return on Net Assets ratio is compared to the Arkansas Schools and IPED school ratio averages:

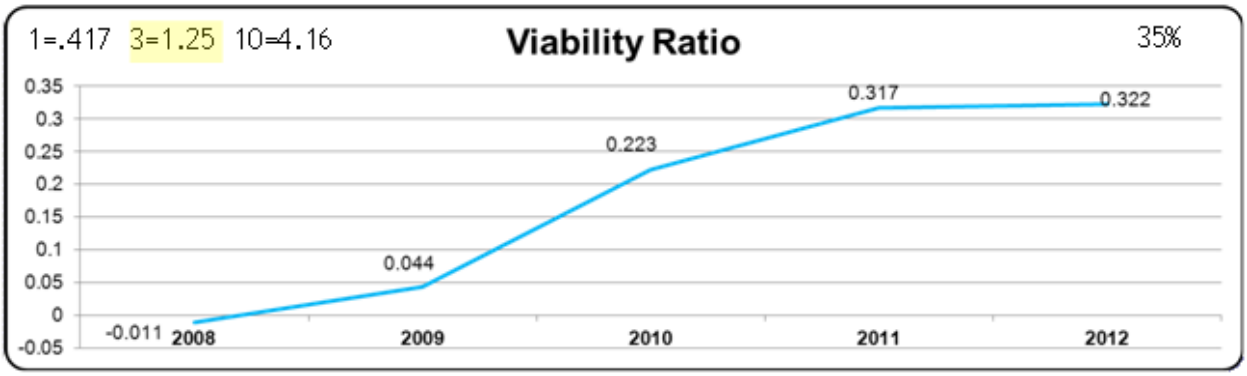
FY	2008	2009	2010	2011	2012
UCA	0.075	0.036	0.131	0.104	0.062
IPEDS*	0.084	0.042	0.110	0.116	-
Arkansas**	0.056	0.077	0.087	0.091	0.067

**IPED schools include: Eastern Illinois, Western Kentucky, Appalachian State, and Middle Tennessee.*

***Arkansas schools include: Arkansas Tech, UALR, and ASU-Jonesboro.*

The trend shows a decline since 2010, but it is important to note that beginning in 2009, the university coupled a dramatic cut in expenditures with stimulus funding and bond reimbursements, much of which was captured by the university as expendable net assets.

Viability Ratio is calculated as expendable net assets/long term debt. This **measures the availability of sufficient cash, or other convertible assets, to pay institutional obligations**. In that the long-term debt need not be paid off at once, there are no absolute thresholds for this ratio. In the viability ratio, the "expendable" resources are divided by long-term debt. When expendable funds equal long-term debt, for example, the ratio would be 1. When expendable funds are twice the amount of long-term debt, the ratio is 2. Falling below a ratio of 1.0 will limit the institution's ability to fund new initiatives through debt and will make current creditors nervous. **Certainly not all debt is bad, but you will want to keep your institution above the 1.25 level on the viability ratio as recommended by KPMG.**



FY	2008	2009	2010	2011	2012
UCA	-0.011	0.044	0.223	0.317	0.322
IPEDS*	0.523	0.439	0.469	0.538	-
Arkansas**	0.710	0.642	0.530	0.549	0.615

**IPED schools include: Eastern Illinois, Western Kentucky, Appalachian State, and Middle Tennessee.*

***Arkansas schools include: Arkansas Tech, UALR, and ASU-Jonesboro.*

The university's rate increased significantly over the 2008 low water mark of -0.011 to 0.317 for 2011 and has increased slightly for FY 2012. These increases are significant, especially since more than $36 million of long term debt was added to the balance sheet. The current ratio indicates the university has $32 of expendable net assets for every $100 of debt. **NACUBO has a benchmark of 1:1, however universities with stable state support can safely operate at lower levels**. This is evidenced by the IPEDS and Arkansas averages for 2011.

CFI

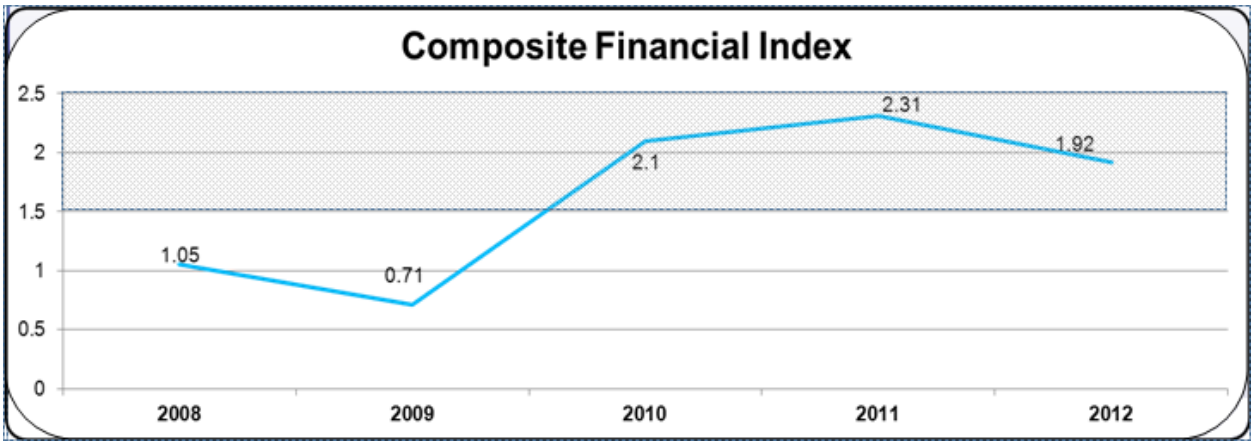
Definition: The Composite Financial Index (CFI) is a measure of the institution's overall financial health based on the sufficiency and flexibility of resources, the management of debt, the performance of assets, and the results of operations. A score of 3.0 is considered the threshold for financial health.

Once each of the four ratios is calculated above, the relative strength of the score, or strength factor, and its importance in the mix of creating a composite score, or weight, is computed. The result is one weighted score for each indicator that when added together produces the Composite Financial Index. The strength factors and CFI score are standardized scores that fall along a scale of -1 to 10.

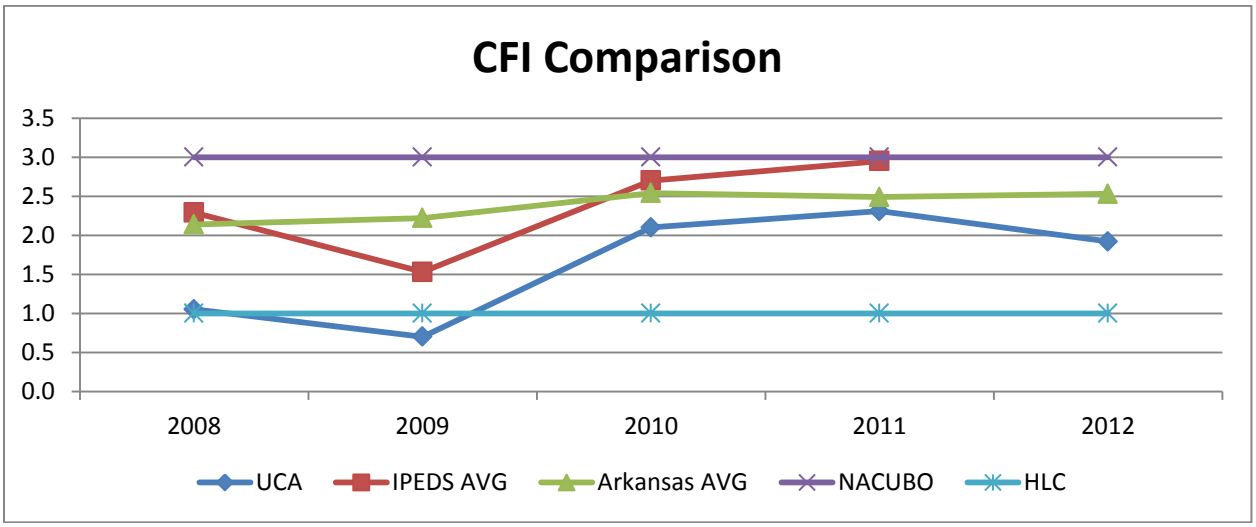
Interpretation:
A CFI score of 3 is the threshold of institutional financial health. **A score of less than 3 indicates a need for serious attention to the institution's financial condition.** A score of greater than 3 indicates an opportunity for strategic investment of institutional resources to optimize the achievement of institutional mission.

The Higher Learning Commission Financial Composite Evaluation is divided into zones.

Above the zone	1.1 to 10.0	No review
In the zone	0.0 to 1.0	Review if 2 or more consecutive years; request additional financial documents
Below the zone	-1.0 to 0.0	Review if 1 year; request additional financial documents



The above shows the University's improvement in the HLC Composite Financial Index score. The Composite Financial Index (CFI) dipped slightly in FY 2012, following sharp increases in the two years preceding. The dramatic increases can be attributed to several factors including monitoring expenses to operate within a much tighter budget, allowing net revenues to be applied toward the depleted reserves, and utilizing federal stimulus funding for 2009, 2010 and 2011 to help rebuild cash balances by releasing university funds that would have otherwise been obligated for ongoing expenses.



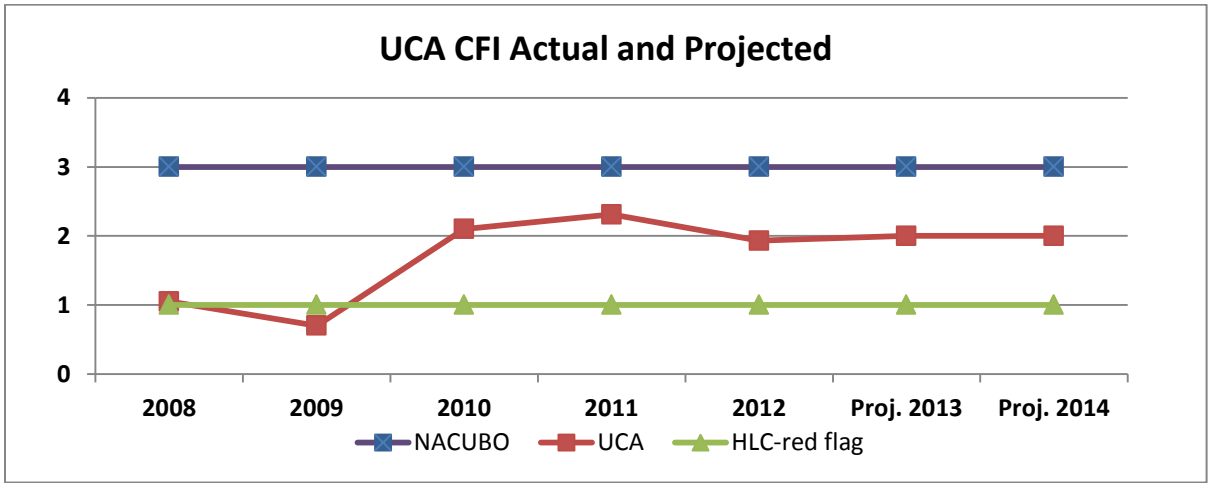
The CFI comparison chart shows the progress made by UCA while comparing its CFI with those targets set forth by the National Association of College and University Business Officers (NACUBO) and the HLC. The chart also benchmarks UCA against the selected Arkansas university average and the IPEDS peer group average.

		2008	2009	2010	2011	2012
UCA		1.05	0.71	2.10	2.31	1.92
Benchmark AVG		2.29	1.53	2.70	2.95	
Arkansas AVG		2.14	2.22	2.54	2.49	2.53
NACUBO		3.00	3.00	3.00	3.00	3.00
HLC		1.00	1.00	1.00	1.00	1.00

Note: The Arkansas average uses Arkansas Tech University, University of Arkansas at Little Rock without the U of A Foundation and Arkansas State University Jonesboro. The IPEDS average includes universities selected as peer institutions on the IPEDS report, Eastern Illinois, Western Kentucky, Appalachian State and Middle Tennessee.

With a CFI target of 1.5 – 2.5 as set forth in the university's key performance indicators, UCA is clearly in the acceptable range. The index of 1.92 for FY 2012 is below the NACUBO target of 3, but above the HLC red flag level.

CFI Actual and Projected



The chart above demonstrates UCA is situated just between the HLC red flag marker of 1 and the NACUBO preferred index of 3. Since 2010 the university's CFI ratings have been within the key indicator range of 1.5 and 2.5 as set forth by the UCA Strategic Planning Council. This range is considered a comfortable level projected out to FY 2014.

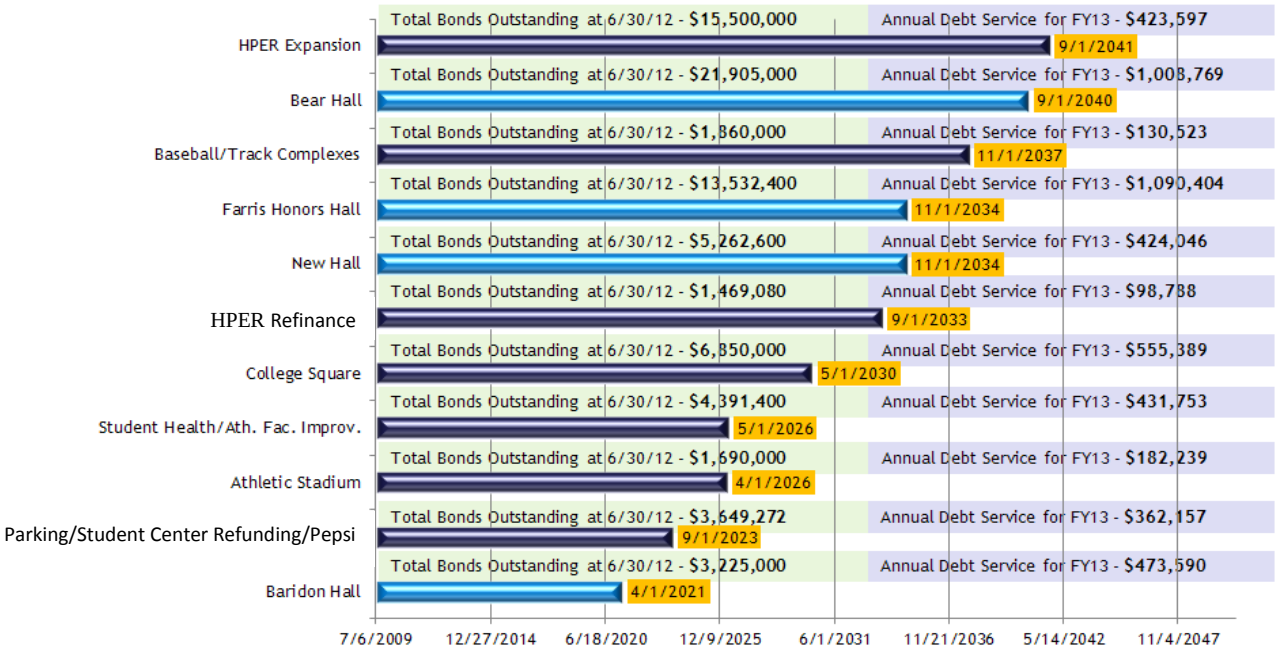
Higher Learning Commission Ratios-FY2008 thru FY2012

		UCA's Ratios and CFI Score(un-weighted)				
Ratio and Description	**Ideal per KPMG**	**2012**	**2011**	**2010**	**2009**	**2008**
Primary Reserve Ratio	.40 or better	0.245	0.216	0.127	0.028	<0.008>
This ratio indicates the amount of time during which an institution could pay its expenses. A .40 indicates it would have the ability to cover about 5 months of expenses from reserves. It means institutions operating at this ratio rely on internal cash flow to meet short term cash needs, are able to carry on reasonable facilities maintenance, and appear capable of managing modest unforeseen adverse financial events.						
Net Operating Revenue Ratio	2%-4%	5.1%	5.6%	3.4%	3.0%	4.3%
A positive ratio indicates the college experienced An operating surplus for the year. The larger the surplus, the stronger the institution financial performance as a result of the year's activity. However, a large surplus may indicate under spending on mission critical investments.						
Return on Net Assets Ratio	6%	6.2%	10.4%	13.1%	3.6%	7.5%
This ratio determines whether the institution is financially better off than in previous years by measuring total economic return. The 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. 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.						
Viability Ratio	1.25	0.322	0.317	0.223	0.044	<0.011>
This 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 level that is right for the institution is institution specific.						
Composite Financial Indicator Score (CFI)	3 or greater	1.92	2.31	2.10	0.71	1.05
This ratio combines the four core ratios above into a single score. The combination, using a prescribed weighting plan, allows a weakness or strength in a specific ratio to be offset by another ratio result. The CFI is useful in helping boards and senior management understand the financial position that the institution enjoys in the marketplace.						

DEBT

Final Debt Service Payment Dates

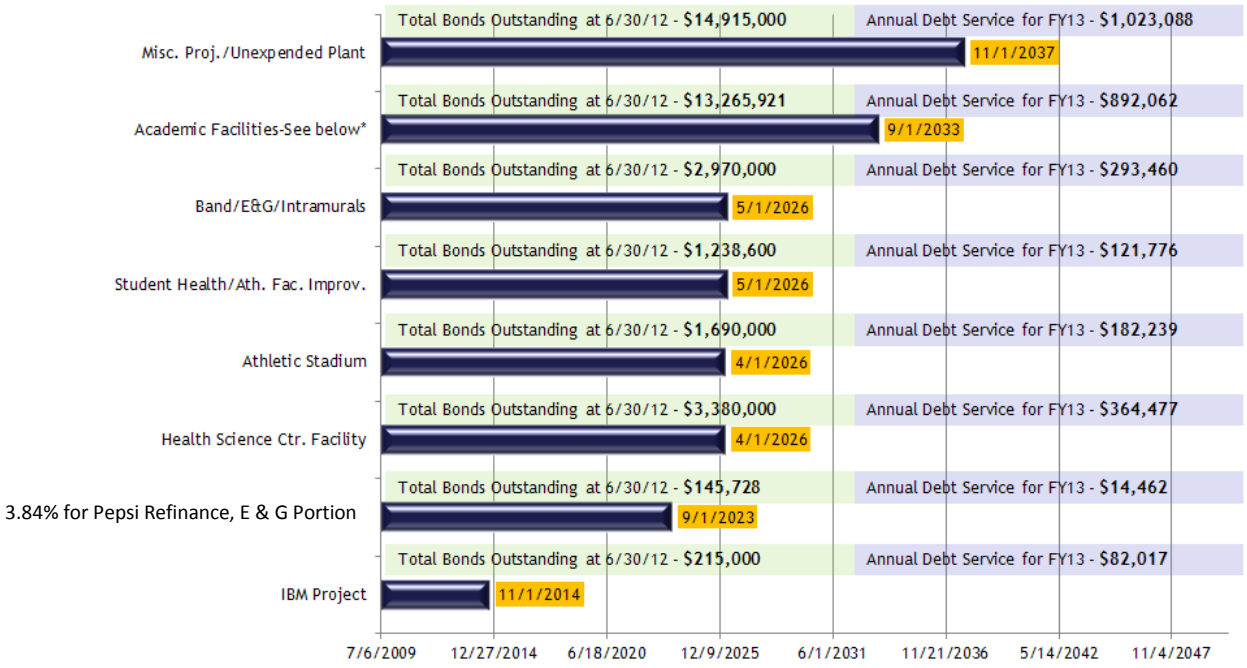
Auxiliary (including Housing)



Total: $79,334,752 **Total: $5,181,255**

Final Debt Service Payment Dates

E & G



*1998 Refunded Lewis Science Center & Health Science Center, which were 1992B. Construction of Thompson Hall.

Total: $37,820,248 **Total: $2,973,581**

Capitalization Ratio=Net Assets
Total Assets

Another underlying ratio that should be considered is the Capitalization ratio. Unlike many of the other ratios presented, a higher ratio is not necessarily preferable to a lower ratio. A very high Capitalization ratio implies that an institution may not be leveraging its assets effectively and might be investing too much costly equity in physical assets. However, an institution with a high ratio does not benefit from enormous future financing flexibility, a major benefit that may sometimes be overlooked. Institutions with a low capitalization ratio will find themselves constrained with less ability to undertake future capital opportunities without negatively impacting credit. **The desired range for this ratio for institutions is 50 to 85 percent**. Institutions below or near the bottom of this threshold may find their ability to borrow additional funds limited without making difficult tradeoffs. They will have reduced flexibility to respond to future events that may require the expenditure of capital, thereby potentially compromising their strategic advantage. The institution should set guidelines for the Capitalization ratio range that it deems most appropriate to fulfill its current strategic initiatives. The University's Capitalization ratios are as follows:

FY	2008	2009	2010	2011	2012
	43.80%	44.81%	49.70%	47.59%	46.42%

Debt Burden Ratio = Principal + Interest
Operating Expenses

This ratio compares the level of debt service (principal and interest payments) with the institution's operating expense, thereby **measuring an organization's reliance on debt as a source for financing its mission.** Higher ratios indicate fewer resources being available for other, general operating purposes.

As a measure of the relative cost of debt to overall expenses, a declining trend is generally desirable. The ratio can spike during times of specific funding activity, however**. Investment bankers set an upper threshold of 7% for this ratio. KPMG recommends 7 percent for most but realizes that 5 percent or less might be more realistic. Higher levels of debt burden over the long term will reduce the institution's flexibility to fund other strategic initiatives.**

The numerator includes required principal and interest payments (plus any other required additions to reserves or renewal & replacement fund), as reported on the Statement of Cash Flows, minus principal paid to retire debt early or refinance existing debt. The denominator is total operating expenses, as reported on the Statement of Revenues, Expenses, and Changes in Net Assets.

The University's Debt Burden ratios* are calculated below:

FY	2008	2009	2010	2011	2012
	6.01%	5.98%	5.59%	4.29%	5.24%

Debt Service Coverage Ratio= Unrestricted Net Assets + Interest & Depreciation
Principal & Interest

This **ratio measures the excess income available for covering annual debt service** (principal and interest) payments. A high ratio is therefore a positive indicator that the organization has sufficient income to meet debt obligations.

This is an important ratio because it gives the analyst a level of comfort that the institution has a net income stream available to meet its debt burden should economic conditions change. A high ratio is considered advantageous, while a low ratio or declining trend gives reason for concern regarding the institution's ability to sustain its operations.

The numerator for this ratio includes changes in unrestricted net assets plus interest expense and depreciation expense. The denominator consists of required annual debt service (principal and interest payments). **It is recommended that Universities fall between 2.4 to 4.6.***

***(Prager, Sealy, & Co., Inc, Strategic Financial Analysis for Higher Education, 6th edition, page 59-60).**

The University's Debt Service Coverage ratios are presented below:

FY	2008	2009	2010	2011	2012
	2.16x	2.14x	2.34x	3.62x	2.90x

Capital Related Debt to Net Capital Assets= Long Term Debt
Net Capital Assets

This ratio **measures the extent to which plant assets have been financed by debt**. Incurring indebtedness is often a cost-effective solution to obtaining necessary facilities. However, the assumption of debt burden does require careful balancing of fiscal obligations. This ratio decreases over time as capital debt is retired and new debt is not incurred.

The numerator (capital-related debt) is comprised of total long-term liabilities minus remainder annuity trusts. The denominator is net capital assets as reported on the Statement of Net Assets.

FY	2008	2009	2010	2011	2012
	64.49%*	58.42%	54.70%	68.42%	69.85%

***** *$4.5 million in line of credit excluded from this calculation.*

Debt per FTE Student= Long Term Debt / FTE

This ratio compares the level of total institutional debt with the number of full-time equivalent (FTE) students enrolled at the institution, **thereby providing a measure of the debt burden on a per student cost basis.** The annualized FTE by fiscal year and the ratio of debt per FTE are presented below:

Annualized FTE:

FY	2008	2009	2010	2011	2012
	11,203	11,389	10,653	10,446	10,251

Debt per FTE:

FY	2008	2009	2010	2011	2012
	$8,353	$7,823	$7,930	$10,136	$11,517

FACILITIES

Physical Asset Reinvestment Ratio = Capital Expenditures / Depreciation Expense

This ratio calculates the extent capital renewal is occurring compared with physical asset usage, represented as depreciation expense. **According to KPMG, a ratio of 1:1 indicates an increasing investment in physical assets, whereas a lower ratio potentially indicates an underinvestment in campus facilities**. A ratio substantially less than 1:1 may indicate that the institution is consistently under-investing in plant and increasing its deferred maintenance obligation. The University's Physical Asset Reinvestment ratios for the past five years are presented below:

FY	2008	2009	2010	2011	2012
	0.972	1.701	0.749	0.718	2.351

2.328 is an average *of the following Universities: University of Connecticut, University of Cincinnati, Kent State University, Ohio University, Clemson University, University of Missouri, Washington State University, Miami University, University of New Hampshire, Auburn University, University of Tennessee, and University of North Carolina.*

In 2009, the University began construction of the New Business Building and the Track/Soccer Complex and also completed the Student Center Renovation and the addition of the Gross Anatomy labs to Doyne Health Science Center. In 2012, the construction of Bear Hall was ongoing as well as completion of the Artificial Turf projects for Athletics. These projects contributed to the increased capital outlay to cause the major change in the ratios from the prior fiscal years.

Facilities Maintenance Ratio = Plant Expense / Total Revenue

This ratio answers the question of how much of total revenues are expended on operations and maintenance of plant facilities.

FY	2008	2009	2010	2011	2012
	6.79%	6.68%	11.46%	8.49%	8.46%

****The benchmark for Facilities Maintenance Ratio is 6.4%***

The three year downward trend could suggest the university is not keeping up with its commitment to facility maintenance, however, the 2010 ratio reflects a higher than normal spending on facilities due to the Federal ARRA funding. With that consideration, the ratio trend is stable for years 2011 and 2012, yet significantly higher than in years earlier than 2010. This indicates that even while rebuilding reserves and supporting the academic mission of the university, the facilities are not neglected, but rather put on a more prominent level.

A sampling of the major projects that have enhanced the living and learning environment include: the completion of an off-campus redundant site for the technology based support of the campus; the new College of Business; the new LEED certified residential facility; restoration of a historic 776 seat auditorium; complete interior facelift of an academic facility; renovations to multiple housing facilities; strategic property purchases; construction of a 200 seat amphitheater; and, major deferred maintenance on more than 20 buildings.

Space needs for Academic Buildings at the University

The chart below is the calculation which determines space needs. The formula subtracts the space needs from our actual academic and library space to arrive at a deficit figure. The University's calculated Academic space needs per the ADHE table above are 2,297,391 square feet. Our actual square feet as reported to ADHE for 2012 was 1,428,119. Therefore, based on the current calculation the **University has a need of 869,272 square feet**.

Summary of Academic Space Projection Model Outcome

Space Type	Method	Square Feet
Classroom		702,793
Library - Study Space	*6.25 Sq. Ft. per FTE*	65,274
Stack Space	*0.1 Sq. Ft. per Volume*	98,676
Staff Offices	*12.5% of Stack & Study Space*	20,494
Technology/Service	*9 Sq. Ft./FTE*	93,995
Total Library		278,440
Research	*9,000 Sq. Ft./$1 Million Research Funds*	58,281
Office Space - Faculty	*190 Sq. Ft. per FTE Faculty*	140,055
Non-Faculty	*1.8 times FTE faculty times 170 Sq.Ft.*	225,563
Sub Total		1,405,132
Academic Support Space	9% of Classroom, Library, Research, Office	126,462
Total Academic Space		1,531,594
Institutional Support Space		765,797
Total Space Needs	150% of Academic Space Requirements	2,297,391
Actual Space 2012		1,428,119
Additional Square ft. needed		869,272

(*Source: ADHE 2/26/13)*

Deferred and Critical Maintenance

As determined by the Administration, the University's deferred and critical maintenance needs calculated as of May 8, 2012 were as follows:

Roofs	$ 3,760,900
HVAC	11,465,150
Lights	2,572,060
Safety	2,651,972
General Maintenance	11,388,322
Grand Total	$49,738,895

SCHOLARSHPS TO TUITION AND FEES

(Source: ADHE 2012)

Table D-1. Undergraduate Academic and Performance Scholarship Expenditures for Fiscal 2011-12*

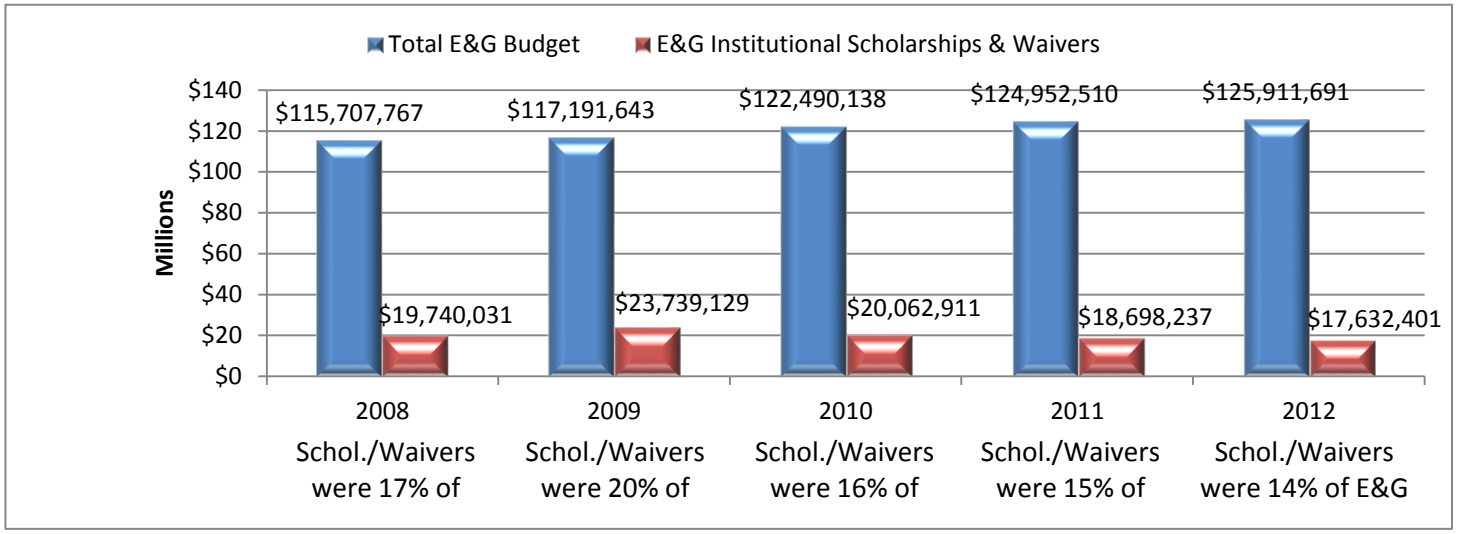
Institution	Academic		Performance		Total Scholarships		Total Tuition & Fee Income	Scholarships as a Percent of Tuition & Fees	Average Academic Award	2011-12 Tuition & Fees	Award as of % of Tuition & Fees
	Awards	Amount	Awards	Amount	Awards	Amount					
ASUJ	1,636	$7,869,133	323	$772,701	1,959	$8,641,834	$88,566,132	9.8%	$4,810	$6,934	69.4%
ATU	1,184	$8,112,610	16	$13,802	1,200	$8,126,412	$47,858,735	17.0%	$6,852	$6,258	109.5%
HSU	670	$3,630,622	235	$372,295	905	$4,002,917	$24,859,557	16.1%	$5,419	$6,714	80.7%
SAUM	958	$3,829,788	167	$431,617	1,125	$4,261,405	$21,357,293	20.0%	$3,998	$6,786	58.9%
UAF	2,869	$11,139,525	300	$750,849	3,169	$11,890,374	$180,261,378	6.6%	$3,883	$7,173	54.1%
UAFS	1,025	$2,252,581	107	$138,040	1,132	$2,390,621	$30,392,284	7.9%	$2,198	$5,267	41.7%
UALR	2,456	$8,612,624	185	$223,981	2,641	$8,836,605	$73,272,098	12.1%	$3,507	$7,040	49.8%
UAM	505	$1,198,714	526	$375,845	1,031	$1,574,559	$13,650,730	11.5%	$2,374	$5,290	44.9%
UAPB	110	$888,495	177	$800,530	287	$1,689,025	$18,913,371	8.9%	$8,077	$5,330	151.5%
UCA	2,282	$9,470,455	400	$844,556	2,682	$10,315,011	$69,777,090	14.8%	$4,150	$7,183	57.8%
University Total	13,695	$57,004,547	2,436	$4,724,216	16,131	$61,728,763	$568,908,668	10.9%	$4,162	$6,398	65.1%

Tuition Discounting

Waiving/scholarships are tuition that the university is not collecting.

Tuition Discounting - E & G Scholarships & Waivers
Total E & G Budget

Institutional E&G Scholarships and Fee Waivers Compared to E&G Budget



Note 1: **This is a different calculation from that required by ADHE based on state law.**
Note 2: **In 2009 out of state fee waivers became recognized as revenue and expense.**

The ratio shown for each **year indicates "uncollected money", i.e., tuition charges not collected due to tuition scholarship/waivers being given.**

State of Arkansas Scholarship Cap

During the state legislative general session of 2009, Senate bill 316 which was later passed and became law through Act 323 set a cap on scholarship spending for the state's colleges and universities. The bill set limitations on the amount of unrestricted educational and general tuition and fee income a state supported institution can spend on academic and performance scholarships. In part, the bill reads- A state supported institution of higher education shall not exceed its unrestricted educational and general tuition and mandatory fee income spending for academic and performance scholarships by more than:

2011-12	30%
2012-13	25%
2013-14	20%

Beginning with the 2013-14 fiscal year all expenditures for academic and performance scholarships exceeding twenty percent (20%) of educational and general tuition and mandatory fee income in a

fiscal year shall be deducted from the state funding recommendations as determined by the appropriate funding formula model for the fiscal year in the following biennium.

NOTE: "Academic scholarships" does not include:

***Graduate assistantships or fellowships**

***Tuition waivers based on age, military service, or occupation and out-of-state tuition waivers for graduate students or students from contiguous states in close proximity to a college or university.**

***Scholarships for transfers from two-year institutions**

***Scholarships made to a student who qualifies for a maximum Pell grant**

***Performance scholarships made to a student who qualifies for a maximum Pell grant.**

The University's Academic and Performance scholarship expense without the exclusions above as presented on the ADHE Series 30-1 report are listed below:

2011-12	14.64%
2010-11	16.39%
2009-10	19.43%
2008-09	23.19%
2007-08	Records for the exclusions were not documented for this year or prior

Tuition and Fees

Annual Full-time Resident Undergraduate
Tuition and Mandatory Fees for Four-Year Institutions (2007-08 through 2012-13)
Resident

Institution	2007-08	2008-09	2009-10	2010-11	2011-12	5YR Increase	5YR Average	2012-2013	1 YR Increase
UAF	6,038	6,399	6,459	6,767	7,173	25.1%	5.0%	7,553	5.3%
ASUJ	6,010	6,370	6,370	6,640	6,934	19.5%	3.9%	7,180	3.5%
UALR	5,740	6,121	6,331	6,642	7,040	27.9%	5.6%	7,343	4.3%
UCA	6,215	6,505	6,698	6,908	7,183	18.0%	3.6%	7,332	2.1%
ATU	5,120	5,430	5,610	5,908	6,258	27.5%	5.5%	6,528	4.3%
HSU	5,689	6,024	6,204	6,444	6,714	22.8%	4.6%	6,984	4.0%
SAUM	5,224	5,646	6,066	6,426	6,786	36.8%	7.4%	7,146	5.3%
UAFS*	4,060	4,410	4,600	4,918	5,267	33.9%	6.8%	5,436	3.2%
UAM	4,300	4,600	4,750	4,990	5,290	29.3%	5.9%	5,560	5.1%
UAPB	4,499	4,676	4,796	5,033	5,330	22.6%	4.5%	5,517	3.5%
Average	5,290	5,618	5,788	6,068	6,398	26.3%	5.3%	6,658	4.1%

*University of Arkansas Fort Smith was formerly Westark College, a two-year institution, until January 2002.
SOURCE: ADHE FORM 18-1
**Mandatory Fees include both E&G and Auxiliary
(Source:ADHE 2012)

INCOME AND CASH

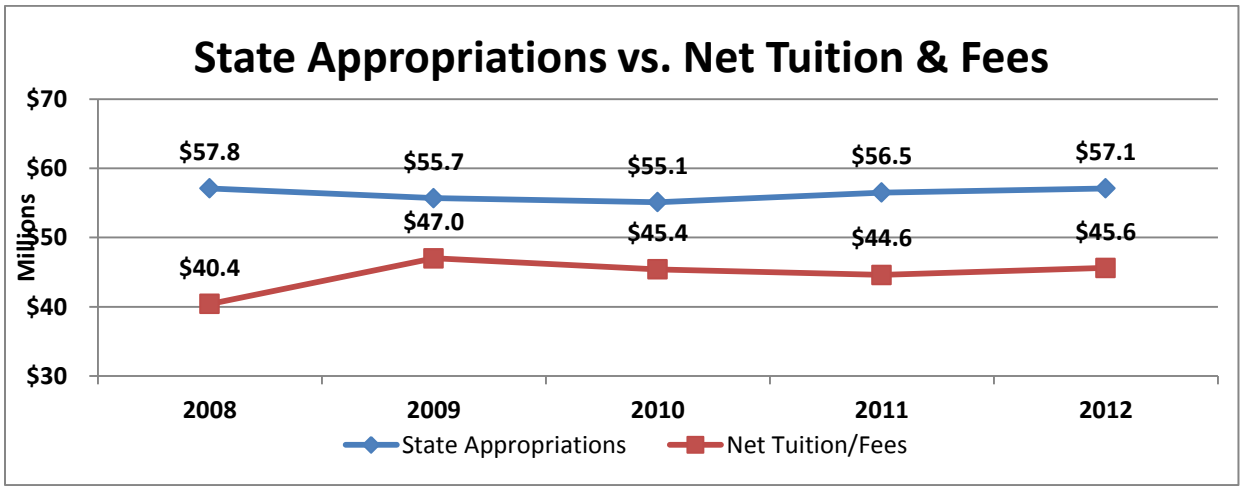
Net Tuition & Fees Ratio=Tuition and Fees(net of Sch Allow)
Total Expense

The net tuition and fees ratio measures the University's dependency on tuition and fees net of discounts in comparison to the total operating and non-operating expenses the University has. The University's net tuition and fees ratios are presented below:

FY	2008	2009	2010	2011	2012
	36.32%	41.00%	44.67%	50.79%	49.91%

The increase in this ratio for the more recent years can be attributed to the economic conditions in which there has been no growth in state appropriations, which makes the University rely more on tuition and fee revenue to cover ever increasing expenses. Also, in fiscal year 2011, the Arkansas Challenge scholarship funding changed due to the Arkansas Scholarship Lottery. The University received $16,288,410 in lottery scholarship funds for students for the 2010-2011 school year, compared to only $3,063,625 during the 2009-2010 year. This scholarship change made the ratio rise. KPMG suggests that institutions that receive more than 60 percent of their revenue from tuition are very sensitive to changes in enrollment patterns.

State Appropriation vs. Net Tuition and Fees



The State Appropriations vs. Net Tuition and Fees chart shows a steady and somewhat predictable stream of cash flows from the State of Arkansas as well as from the cash flowing from the net tuition and fees. This chart does not reflect the dependence on these two sources as a percent of total revenue.

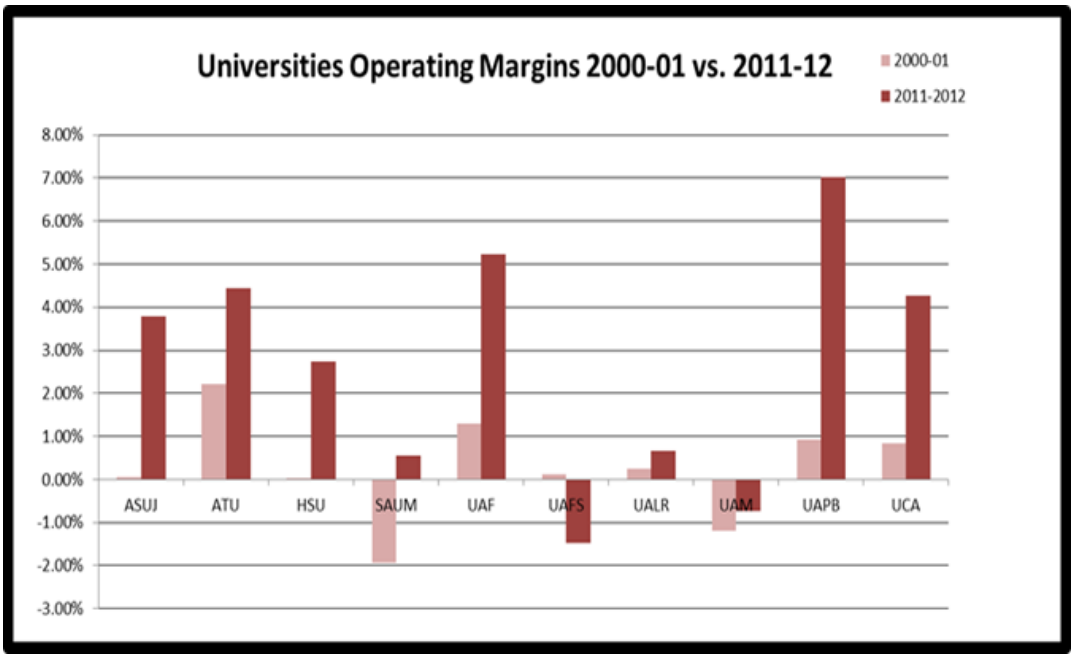
University Need-Based Model for Fiscal 2013-14 — **Census Date SSCH - Calendar Year 2011**

	Four-Year Institutions										
Expenditure Function	ASUJ	ATU	HSU	SAUM	UAF	UAFS	UALR	UAM	UAPB	UCA	Total
Teaching Salaries	56,147,977	31,670,696	14,722,706	12,942,231	103,976,636	24,340,909	48,907,679	9,595,670	12,092,038	48,140,356	362,536,897
Other Instructional Costs	25,266,590	14,251,813	6,625,218	5,824,004	46,789,486	10,953,409	22,008,455	4,318,052	5,441,417	21,663,160	163,141,604
Library Cost	8,955,602	5,051,476	2,348,272	2,064,286	16,584,273	3,882,375	7,800,775	1,530,509	1,928,680	7,678,387	57,824,635
General Institutional Support	43,963,866	24,798,155	11,527,879	10,133,767	81,413,706	19,058,932	38,294,712	7,513,410	9,468,066	37,693,899	283,866,391
Research	7,631,415	2,359,266	1,200,611	1,065,722	15,166,405	1,217,045	6,990,481	596,454	733,141	6,475,632	43,436,171
Public Service	1,684,439	950,121	441,681	388,267	3,119,299	730,227	1,467,230	287,870	362,761	1,444,211	10,876,107
Facilities Maintenance & Operation	17,074,019	8,880,839	5,135,375	5,211,880	32,288,588	7,008,105	15,684,907	4,300,424	5,539,624	13,206,938	114,330,699
Special Mission -											
Land Grant					10,397,664				1,209,204		11,606,867
Minority Mission									4,503,915		4,503,915
Diseconomy of Scale - less than 3,500 FTE				376,302				1,407,119	355,657		2,139,078
Total	160,723,907	87,962,367	42,001,741	38,006,458	309,736,056	67,191,002	141,154,240	29,549,509	41,634,503	136,302,581	1,054,262,365
Less Tuition and Mandatory Fees	63,841,716	41,921,555	19,500,247	16,681,304	112,404,852	34,287,271	54,565,355	13,325,758	16,350,855	56,504,276	429,383,189
State Appropriation Required	**96,882,191**	**46,040,812**	**22,501,494**	**21,325,154**	**197,331,204**	**32,903,731**	**86,588,885**	**16,223,751**	**25,283,648**	**79,798,305**	**624,879,176**
FY2012-13 State Funding (RSA and EETF)	60,107,770	31,122,938	20,553,865	16,661,937	122,324,477	23,249,876	61,460,520	14,000,597	23,398,511	56,797,030	429,677,521
Unmet Need	**$36,774,421**	**$14,917,874**	**$1,947,629**	**$4,663,217**	**$75,006,727**	**$9,653,855**	**$25,128,365**	**$2,223,154**	**$1,885,137**	**$23,001,275**	**$195,201,655**
Percent of Need Met	**62.0%**	**67.6%**	**91.3%**	**78.1%**	**62.0%**	**70.7%**	**71.0%**	**86.3%**	**92.5%**	**71.2%**	**68.8%**
Student share of Total Costs	40%	48%	46%	44%	36%	51%	39%	45%	39%	41%	41%
Latest Census-Date FTE	11,430	7,755	3,598	3,076	19,822	6,385	9,692	2,473	3,037	10,063	77,332
Facilities Funds/Sq. Ft.	$8.04	$9.56	$7.63	$6.52	$7.94	$9.74	$7.58	$6.09	$6.04	$9.25	$7.92

ADHE *02/25/13*

Operating Margins

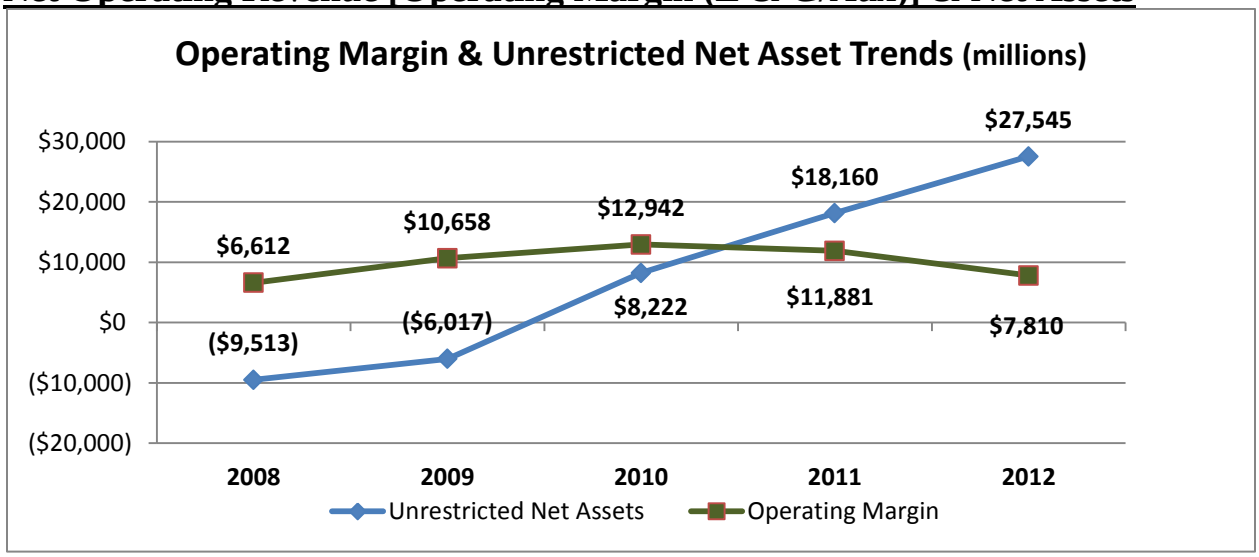
Operating margin is defined as excess income over expenses. Most of the operating margins of the institutions for 2010-11 showed improvement over the previous year. Note the Operating Margins in the graph below are based upon E & G only. All institutions were higher than they were a decade earlier in 2000-01. A graph comparing 2000-01 operating margins to the 2010-11 margins is presented below. (Source:ADHE 2012)



Operating Margin based upon E & G Only (ADHE):

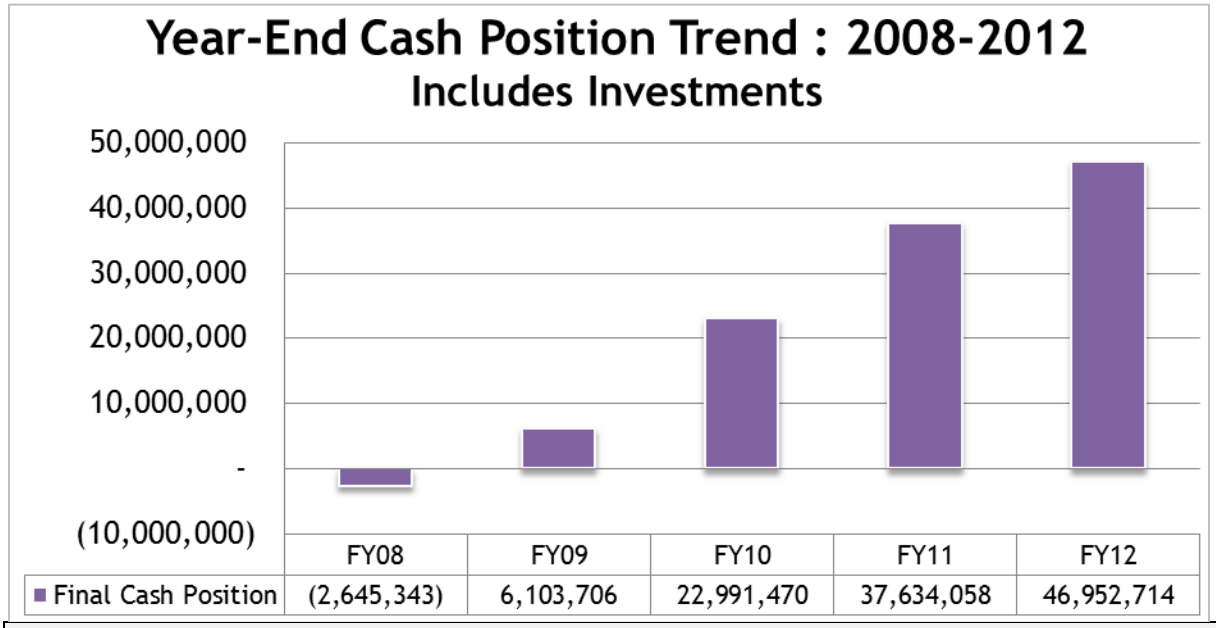
UCA Operating Margins 2002-03 and 2007-08 to 2011-12						
Unrestricted E & G	**FY2002-03**	**FY2007-08**	**FY2008-09**	**FY2009-10**	**FY2010-11**	**FY2011-12**
Total Expenditures	74,114,963	119,425,150	138,565,514	120,894,286	125,887,141	124,364,369
Annualized Fall FTE Enrollment	8,326	11,203	11,389	10,653	10,446	10,251
Revenues:						
Tuition & Fees	31,831,036	62,130,784	71,514,073	68,479,631	68,951,666	69,777,090
Other	2,160,120	4,893,496	5,665,381	2,942,510	3,252,018	2,740,750
State Funds	40,402,826	57,838,973	55,670,633	55,976,707	56,494,605	57,148,643
Total Revenue	74,393,982	124,863,254	132,850,087	127,398,848	128,698,289	129,666,483
Operating Margin	279,019	5,438,104	(5,715,427)	6,504,562	2,811,148	5,302,114
Percent of Expenditures	0.38%	4.55%	-4.12%	5.38%	2.23%	4.26%

Net Operating Revenue [Operating Margin (E & G/Aux)] & Net Assets



UCA increased the unrestricted net (E & G and Auxiliary) asset balance by 51% from FY 2011 to FY 2012, following an increase of 120% from FY 2010 to FY 2011. This significant turnaround is due to a number of factors, 1) strategic spending, 2) stimulus funding and bond reimbursements for FYs 2009, 2010 and 2011, 3) level state funding, and 4) stable tuition revenue, even in the wake of declining enrollment. It has been and continues to be the university's plan to balance building reserves with mission driven expenditures.

Year End Cash Position Trend



Year-End Cash Position increased from <$2,645,343> in FY08 to $46,952,714 in FY12. (The FY 08 balance is net of a line of credit)

Unrestricted/Unallocated Cash

The unrestricted/unallocated balance that has been previously reported is funds that are in the Education & General or Auxiliary funds that are available for use in operations. These funds are not restricted as to use. The amounts reported below are cash and cash equivalents and do not reflect any receivables or payables which would be used in the calculation of fund balance.

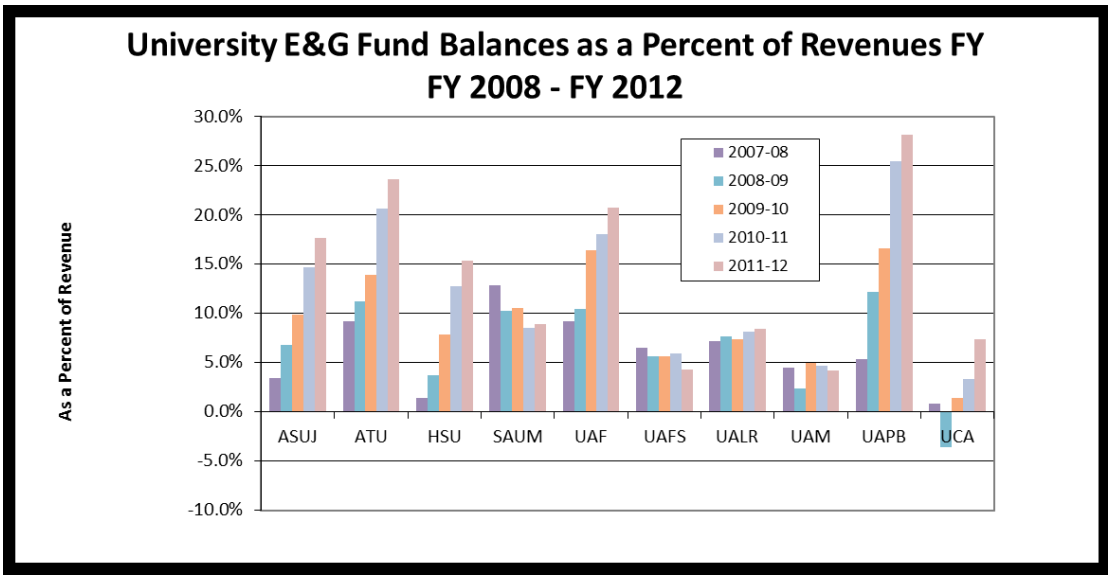
The unrestricted/unallocated balances without receivables and payables at June 30th for each fiscal year follow:

2012 $19,014,226
2011 $11,768,838
2010 $ 4,545,095
2009 $ 719,263
2008 <$ 4,279,020>

Fund Balances

FUND BALANCE is when liabilities are subtracted from assets, there is a fund balance. A positive fund balance means there are more assets than liabilities; a negative fund balance means just the opposite. Fund balance can be complicated by the fact that part of the fund balance is reserved and part unreserved. The difference between reserved and unreserved is that the unreserved can potentially be authorized for future expenditures while the reserved cannot. Additionally**,** the fund balance is a residual and not necessarily a cash amount.

Educational and General Fund balances are the perennial measure of the financial condition of institutions for higher education. For universities **that minimum recommended level is 5 percent of the E&G operating budget** with an ideal level of at least 14 percent. In 2011-12, only five of the universities were able to achieve that level and only two institution's fund balance was less than 5 percent. However, that can be misleading unless other fund balances are studied in detail along with these findings.



(Source:ADHE 2012)

The University's educational and general (E&G) fund balances and the percent of E & G operating budget were as follows on June 30th:

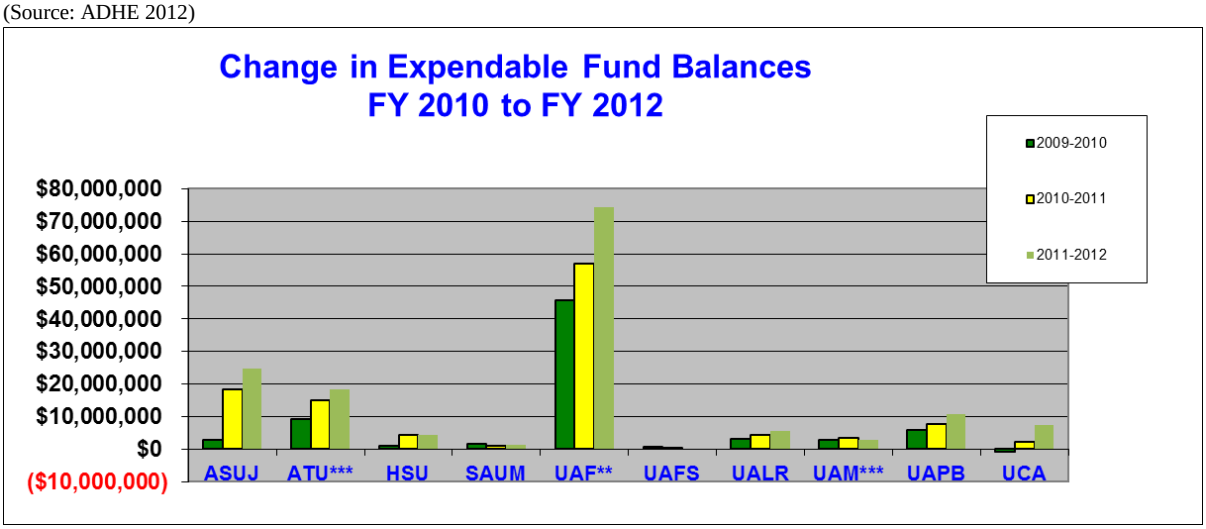
	E&G Fund Balance	% of E& G Operating Budget
2012	$9,617,119	7.64%
2011	$4,315,005	3.45%
2010	$1,841,150	1.50%
2009	($4,663,412)	<3.98%>
2008	$1,052,015	0.91%

Expendable Fund Balances

Expendable fund balances are net of accounts receivable, inventories and encumbrances.

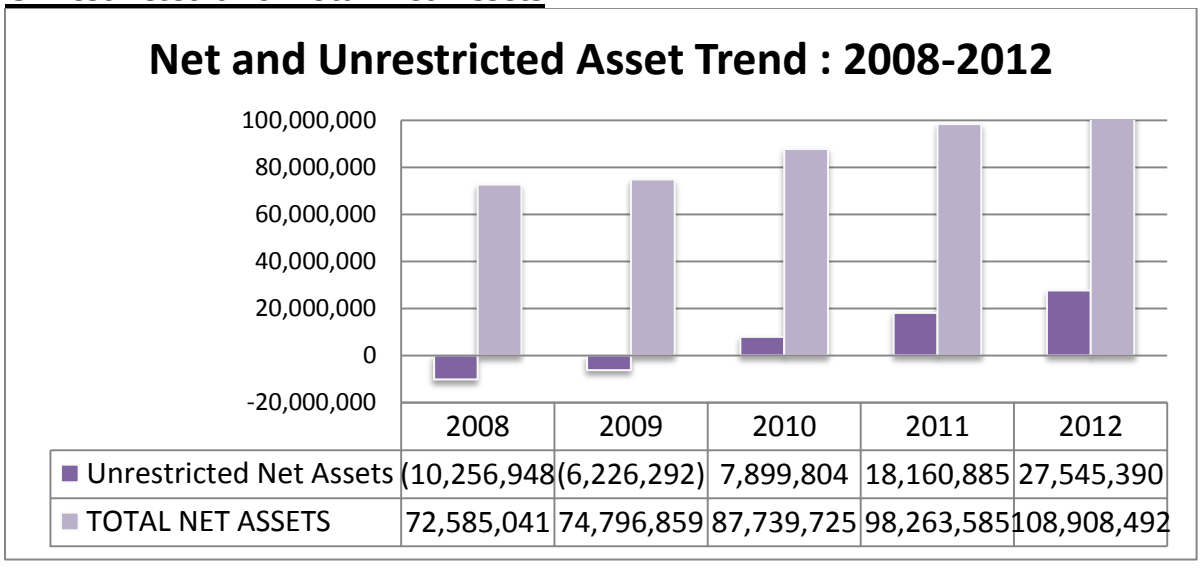
They are primarily presented for a better understanding of the actual spendable portion of the reported fund balances. The graph below contains the expendable fund balance changes for universities from FY 2010 to FY 2012.

(Source: ADHE 2012)



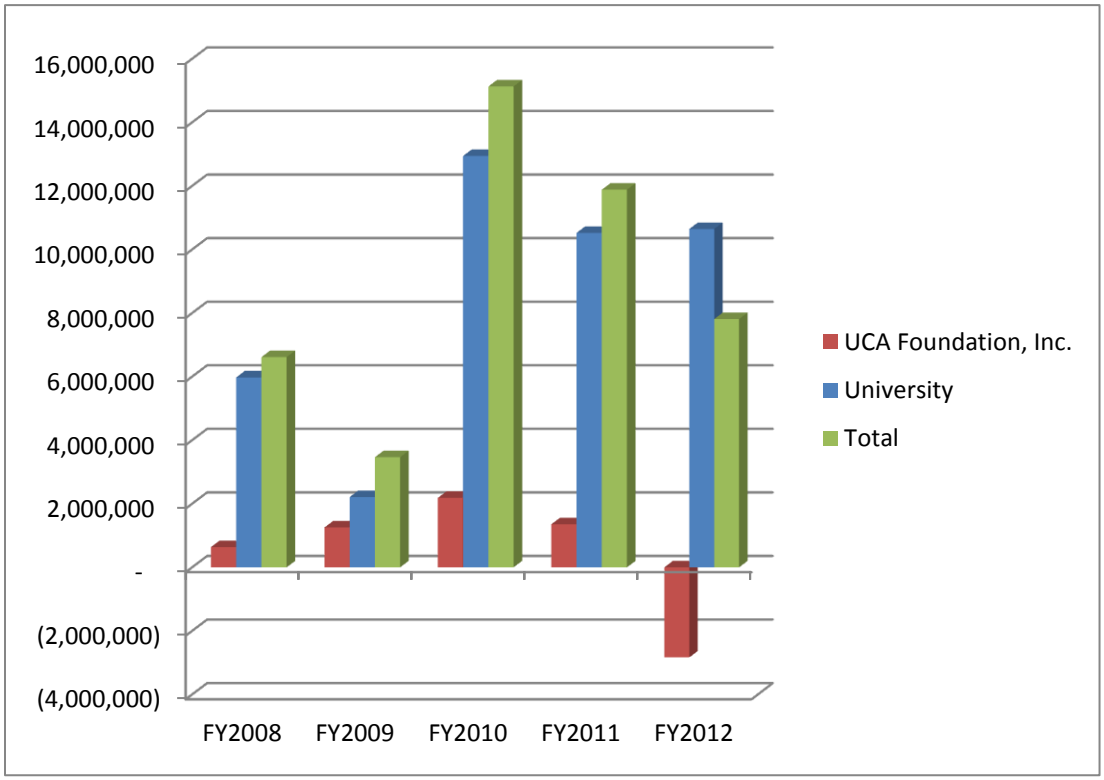
**Source Series: 13-1- In some instances the Fund Balance reported on the 13-1 will not equal the amount reported on the 17-4. Series 13-1 was not available to update at time of release. **Consolidated Fund Balance*

Unrestricted and Total Net Assets



The chart above reflects the "net assets" from the Statement of Net Assets of the University. The net assets of the University are what is left in the equation of assets less liabilities = Net Assets. Net assets are often referred to in the private sector as "capital" or "equity". The chart above shows the improvement of the university's unrestricted net assets from a deficit of ($10,256,948) in fiscal year 2008 due to unfunded projects and property purchases.

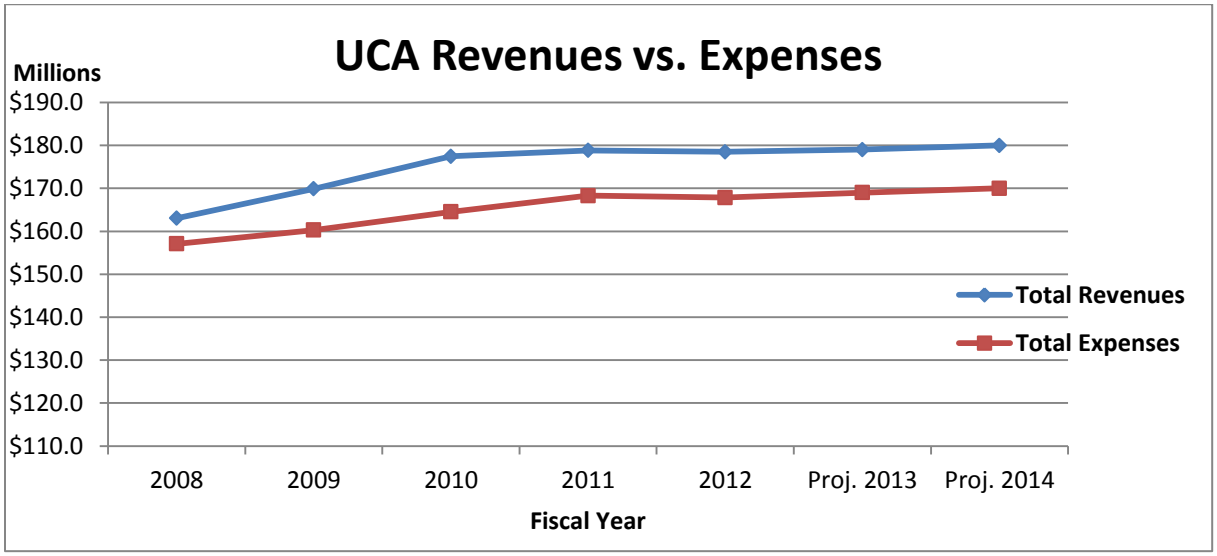
Change in Net Assets



The change in net assets for the University and the UCA Foundation, Inc. are as follows:

	University	UCA Foundation, Inc.		Total
2011-2012	$10,644,907	($2,834,195)	=	$ 7,810,712
2010-2011	$10,523,860	$1,357,342	=	$11,881,202
2009-2010	$12,942,866	$2,186,744	=	$15,129,610
2008-2009	$ 2,211,818	$1,252,682	=	$ 3,464,500
2007-2008	$ 5,975,659	$ 637,501	=	$ 6,313,160

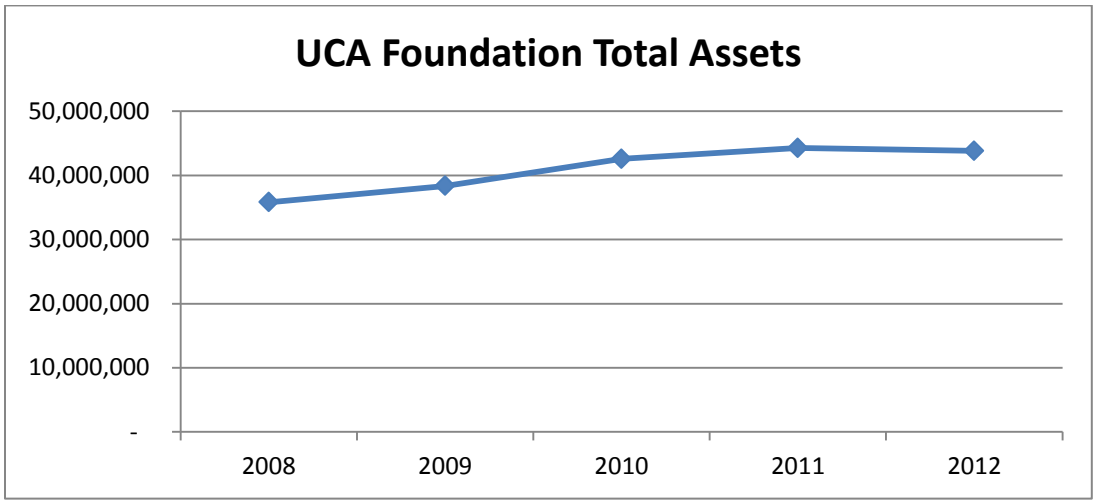
Operating Revenues and Operating Expenditures



The review of operating revenue to operating expenses charts a consistent course. The university has operated within its means for several years.

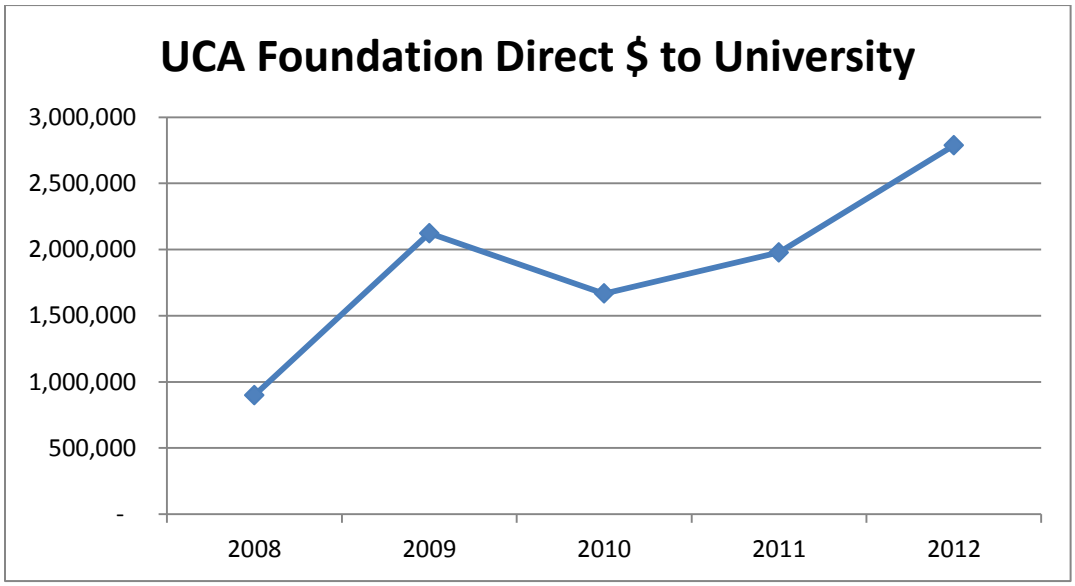
UCA FOUNDATION

UCA Foundation Total Assets as reported June 30th



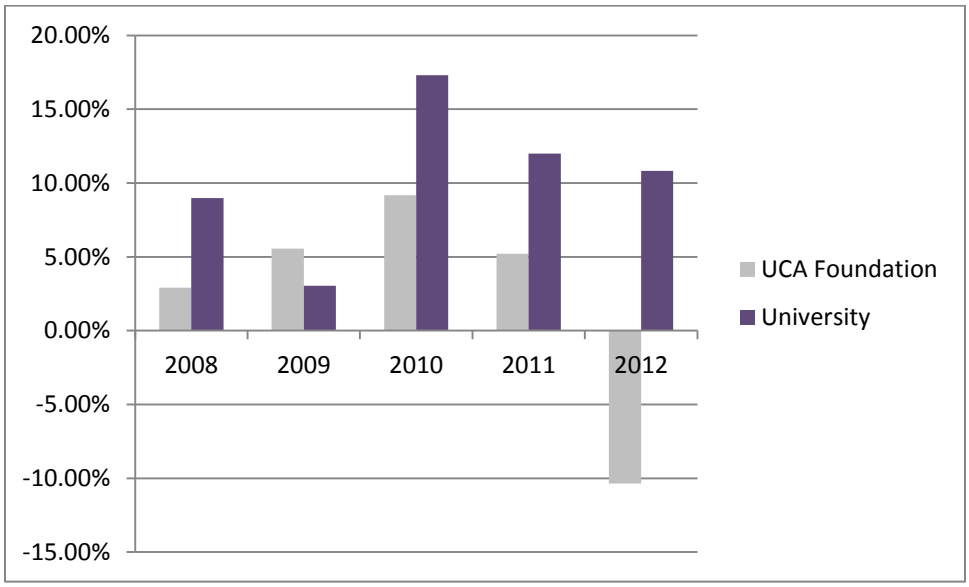
FY	2008	2009	2010	2011	2012
	$35,796,967	$38,355,199	$42,564,219	$44,815,379	$43,815,379

UCA Foundation Contributions to the University



FY	2008	2009	2010	2011	2012
	$899,847	$2,123,734	$1,667,603	$1,977,520	$2,787,105

UCA Foundation vs. University Growth Rate



FY	2008	2009	2010	2011	2012
UCA Foundation	2.90%	5.55%	9.17%	5.21%	<10.35%>
University	8.97%	3.05%	17.30%	11.99%	10.83%

The growth rate (measured as the change in net assets/net assets at the beginning of the year from the audited financials), for the University since 2010 has reached unsustainable levels due to Federal stimulus ARRA funding in 2010-2012 and the strategic plan to hold down expenses in order to rebuild the fund balances and unrestricted cash reserves. The growth rate in the future should come down as the University's reserves are rebuilt and the rate will align more with the foundation. The UCA Foundation's growth rate appears to be in a more acceptable and stable range other than for 2012 which was due to one-time items. These one-time items include a decrease in investments of $332,642 due in part to paying off a loan against an insurance policy owned by the Foundation, a write-off of $1.369 million of unconditional promises to give for a grant from the Walton Family Foundation due to its termination, and additional debt of $2.14 million for a loan on the weight training center and skyboxes.

NEW STATE LAWS

Department of Higher Education Funding Formula

In 2011, Senate Bill 766 was introduced and later passed to become Act 1203 of the regular session of the Arkansas General Assembly to clarify funding formula calculations for state supported institutions of higher education. The Act reads, "The Department of Higher Education in collaboration with state college and university presidents and chancellors, shall develop funding formulas consisting of a needs-based component and an outcome-centered component which will, in principle, seek to provide fair and equitable state support to all postsecondary students across the state, regardless of the state institution attended, while at the same time recognizing:

1) The different needs for lower level, upper level, and graduate level instruction at the various institutions;

2) The requirements for specialized equipment, labs, and smaller class sizes in some disciplines;

3) Unique missions such as agricultural extension services, research, medical sciences, workforce development, and public service; and

4) Growth, economies of scale, and other appropriate factors.

It appears the purpose of this act is to "promote and increase the satisfactory progression, matriculation, and graduation of all students enrolled in two-year colleges and universities."

Due to the complexity of this act, plus our current economic conditions, the implementation of these measures will most likely be delayed.

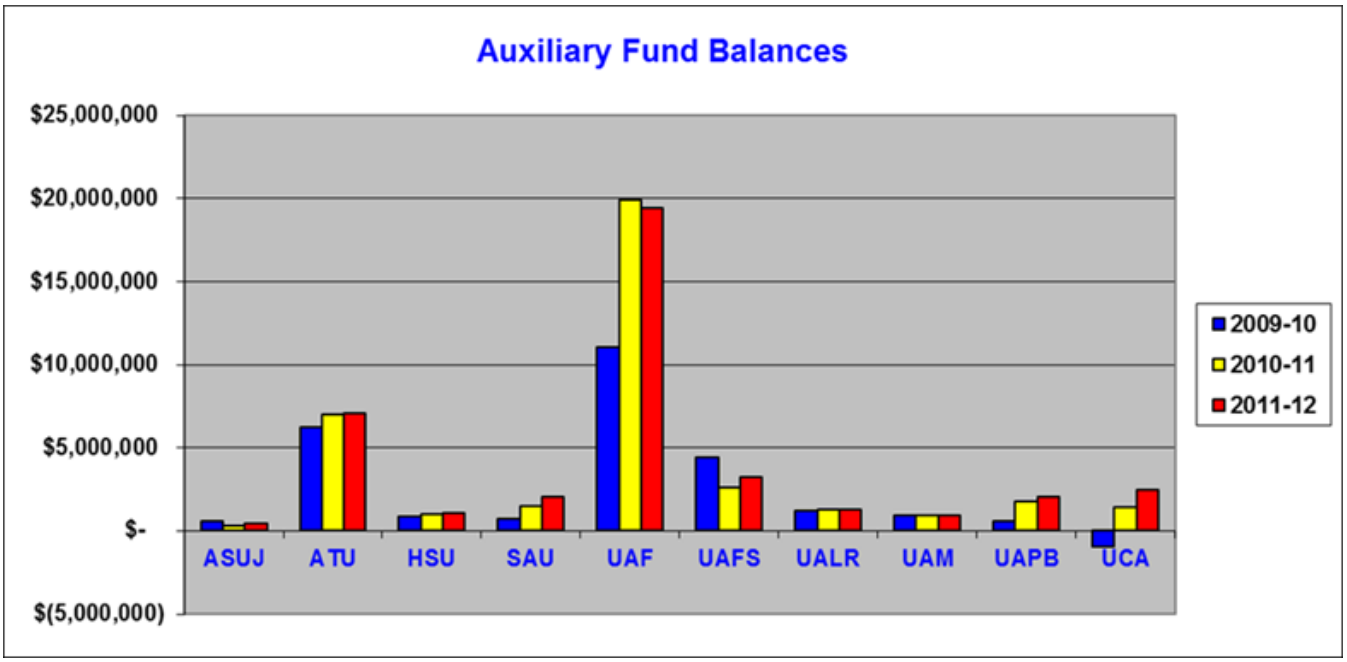
AUXILIARY

Ratio of Net Auxiliary Revenues to Total Auxiliary Revenues=$\frac{\text{Auxiliary net income}}{\text{Auxiliary Revenues}}$

This ratio tells whether the revenues in support of auxiliary enterprises were sufficient to meet the expenditures from those services. It is not unusual for auxiliary services to be out of balance – at time producing surpluses, at times deficits. Auxiliary enterprises are not funded by the state in most instances, and need to be self-supporting over time. Therefore, **it is critical that surpluses be frequent enough and large enough to create fund balance reserves for use to meet capital outlay requirements and temporary unforeseen deficits.**

The numerator is composed of total auxiliary revenues less total auxiliary expenditures (mandatory debt service transfers not included). The denominator is comprised of total auxiliary revenues.

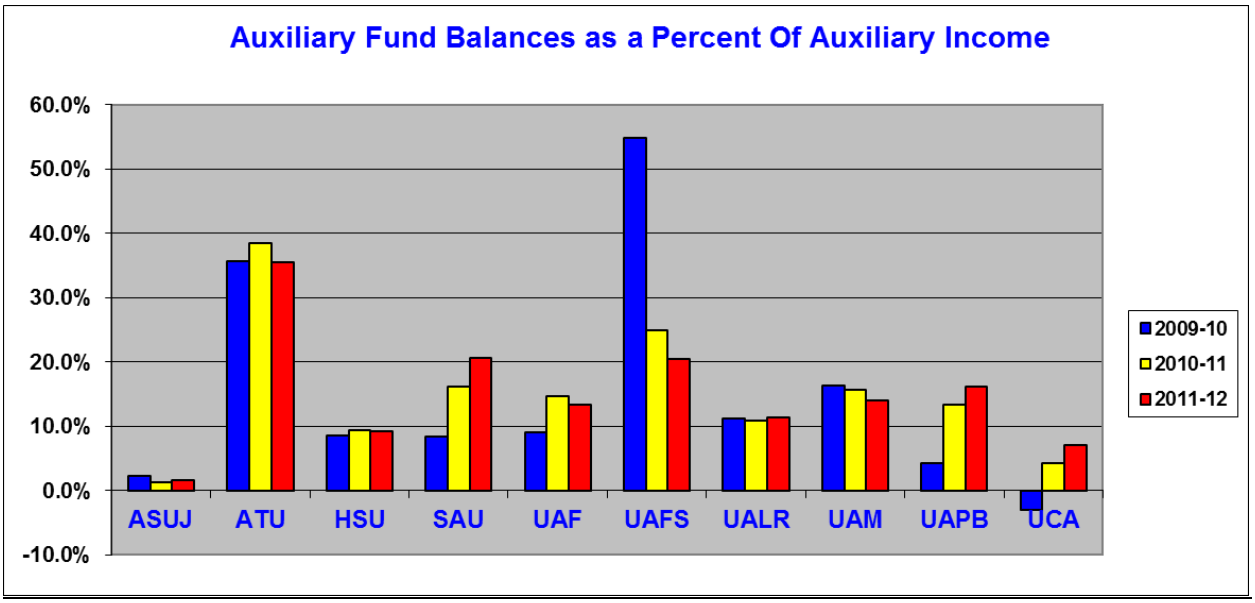
FY	2008	2009	2010	2011	2012
	12.67%	25.77%	20.00%	20.61%	16.65%



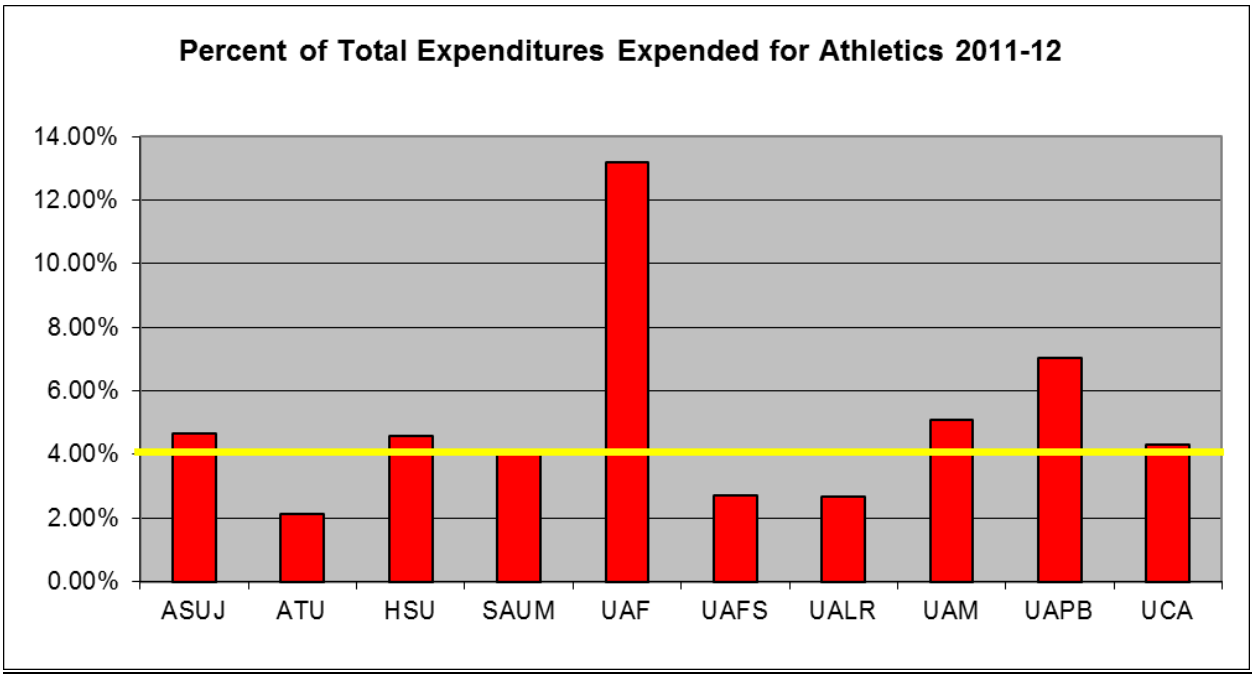
(Source: ADHE 2012)

Fund Balances as a Percent of Auxiliary Income

Shows the fund balances as a percent of auxiliary income. The auxiliary fund balances for 5 of the 10 Arkansas institutions increased over the previous year. (ADHE)



(Source: ADHE 2012)



(Source: ADHE 2012)

INSTITUTIONAL EMPHASIS

Instructional Expenditures per FTE Student= Instructional Expenditures / FTE

This **ratio provides a measure of the unit cost of production for education provided to students**. Causes for declining numbers warrant further investigation, as they could indicate either increased efficiency in producing instruction or decreased emphasis on academic programs.

FY	2008	2009	2010	2011	2012
	$5,416	$5,680	$5,351	$5,610	$5,570

We should stay fairly consistent in this measure, meaning our class size and faculty to student ratio is maintained at a consistent level.

Student to Faculty Ratio

Student FTE to Faculty FTE Fall 2013

	FTE Students per FTE Faculty		
	Undergraduate		Graduate
Institution	Lower Level	Upper Level	
ASUJ	26.4	14.7	15.0
ATU	27.2	14.7	9.2
HSU	23.5	11.6	9.2
SAUM	22.5	11.1	9.6
UAF	34.4	13.5	5.4
UAFS	21.4	14.4	-
UALR	23.8	15.9	8.2
UAM	18.3	11.0	8.5
UAPB	21.6	12.1	4.4
UCA	23.9	13.7	8.1

The University's Institutional Research department has student FTE to faculty FTE ratio data broken down and presented by the below categories:

FY	2007	2008	2009	2010	2011
Honors College	12.4	13.9	13.8	10.4	8.6
Undergraduate Studies	14.4	18.6	15.4	16.9	16.2
University Total	17.7	18.3	17.9	17.4	17.2

Mission Emphasis Indicator-Academic Expenditures= Academic Expenditures / Non Auxiliary Expenses

This ratio **measures the relative emphasis placed on the academic mission of the institution**. Trends of this ratios overtime can indicate changes in investment or production efficiencies relative to the primary academic mission**. These trends are the most important indicator of institutional direction**, as inter-institutional comparisons will be influenced by institution-specific.

The numerator, academic expenditures, is comprised of expenditures related to instruction, academic support, and scholarships/fellowships. The denominator is comprised of total consolidated non-auxiliary operating expenses.

FY	2008	2009	2010	2011	2012
	67.67%	69.28%	62.13%	64.92%	63.85%

Contribution Ratios= Revenue Source / Total Operating Expense

These ratios **measure specific revenue sources as a percentage of total operating expense**. Analyzing these sources is important to ensure that revenues keep pace with expenses over time. Diversification in revenues streams is important in insulating the institution to some degree from fluctuations in primary sources.
The numerator for this formula is the revenue subcategory from the Statement of Revenues, Expenses, and Changes in Net Assets. The denominator is Total Operating Expenses.

FY	2008	2009	2010	2011	2012
Operating Revenues:					
Tuition & Fees*	26.90%	34.32%	28.73%	27.24%	27.97%
Grants & Contracts	4.68%	5.84%	4.21%	5.14%	4.85%
Sales & Services of Educ. Dept.	1.46%	1.56%	1.04%	0.95%	0.94%
Auxiliary Enterprises*	20.61%	15.68%	18.24%	13.94%	15.18%
Other Operating Revenues	1.28%	0.91%	1.01%	0.98%	0.62%
Non-Operating Revenues:					
State Appropriations	38.50%	36.21%	35.43%	34.49%	35.02%
Grants & Contracts	10.70%	11.86%	17.57%	24.70%	23.13%
Gifts	1.78%	0.27%	0.46%	0.15%	0.12%
Investment Income	0.14%	0.06%	0.14%	0.52%	0.37%
Other Non-Operating	1.81%	0.82%	0.56%	0.08%	0.02%

*Net of scholarship allowances and/or bad debt expense.

Demand Ratios= Specific Expense Category / Total Revenue

Demand ratios **describe the eight functional classifications of educational and general expenses, as a percentage of total operating revenues**. Trends in the eight categories indicate whether they are consuming more or less of an institution's revenue stream.

The particular ratio can also **be valuable for inter-institutional comparisons, to determine where an organization places its emphasis**. The formula's numerator is the specific functional expense category as determined by functional classification. The denominator is total operating and non-operating revenues.

Demand Ratios

FY	2008	2009	2010	2011	2012
Functional Classification					
Instruction	37.31%	39.25%	33.60%	32.60%	32.33%
Research	0.83%	1.13%	1.54%	1.75%	2.05%
Public Service	1.57%	1.55%	1.94%	2.44%	2.84%
Academic Support	5.57%	5.41%	4.93%	5.24%	5.75%
Student Services	3.56%	3.14%	3.37%	3.54%	3.53%
Institutional Support	6.83%	6.51%	6.23%	5.66%	5.97%
Operation of Plant	6.79%	6.68%	11.42%	8.49%	8.46%
Scholarships	8.71%	9.43%	9.96%*	12.57%*	11.28%*
Auxiliary Enterprises	16.15%	15.98%	14.55%	14.18%	15.11%
Depreciation	5.07%	4.98%	5.57%	5.52%	5.10%
Total % of Operating & Non-Operating Revenue	92.39%	94.06%	93.12%	91.99%	92.41%

**Note: The scholarship allowance was revised to reflect the appropriate distribution between tuition and student fees.*

Sources:

Strategic Financial Analysis for Higher Education, Identifying, Measuring & Reporting Financial Risks, 7th edition, Copyright 2010, KPMG, LLC., Prager, Sealy & Co., LLC., and Attain, LLC.

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