

FY 2019

ANNUAL

FINANCIAL

REVIEW

This page intentionally left blank

ABOUT THIS REPORT

The purpose of this analysis is to assist the board in evaluating the financial position of Arizona's three public universities: Arizona State University, Northern Arizona University, and University of Arizona. The analysis uses general credit factors used by Moody's to assess an institution's financial health. The ratios used look at relationship with the state, balance sheet position, operating performance, debt position, and market position. The analysis addresses the following questions through the presentation of relevant financial ratios covering a five-year period from FY 2015 – FY 2019 (FY 2018 for national data).

1. How has the composition of revenue changed over time?
 - a. University revenues by source
 - b. State general fund appropriations as a percent of total revenues
 - c. Net tuition and fee revenues as a percent of total revenues
2. Is spending per student increasing or decreasing over time?
 - a. Education and General (E&G) expenses per FTE student
3. Have expendable net assets kept pace with expenses?
 - a. Spendable Cash and Investments to Operating Expenses
 - b. Operating Margin Ratio
4. Are there enough financial resources to cover obligations as they come due?
 - a. Debt Service Coverage Ratio
5. Given the increasing reliance on tuition and fee revenues as a major revenue source, and coupled with a shrinking pipeline, will demand for attending the universities remain steady?
 - a. Primary Market Selectivity
 - b. Primary Market Matriculation

This page intentionally left blank

Key Indicators

STATE GENERAL FUND AS A PERCENT OF TOTAL REVENUES (GF/Total Rev)

- Measures the level of dependence on state appropriations, and conversely the level of dependence on other revenue sources.

EDUCATION AND GENERAL (E&G) EXPENSE PER FTE STUDENT (E&G/FTE)

- Measures institutional spending on all activities except for self-supporting enterprises (auxiliaries such as bookstore, housing and dining, parking, etc.), research, depreciation and scholarship allowances and expenses. Because revenue is a constraint on costs, E&G expenses are largely determined by available revenue. This metric is often used in conjunction with outcome measures such as graduation rates, retention rates, etc.

SPENDABLE CASH AND INVESTMENTS/TOTAL OPERATING EXPENSES

- Measures the extent to which a university can meet operating expenses without receiving new income. An indicator of financial health of the university to meet its current obligations. If the ratio is low, the university lacks spendable funds to meet temporary cash shortages, an emergency, or potential deficit situation. If the ratio is 1.0 the university can meet 100 percent of its operating expenses. The median of all public universities (Moody's) between 2015 and 2018 ranged from .62 to .66.

OPERATING MARGIN RATIO (operating surplus (deficit)/total operating revenue)

- Measures operating performance and reflects a university's ability to balance operations in any given year. A university with a higher operating margin ratio is deemed financially sound and can easily pay its fixed costs and interest on debt. In addition, a university with a good operating ratio can easily withstand an economic downturn, and can successfully compete in the market by maintaining lower tuition rates or the ability to transfer operating margins into quasi-endowments that can be saved and used in the future to support educational activities and mission. The median of all public universities (Moody's) between 2015 and 2018 ranged from 2.4% and 1.9%, respectively.

DAYS CASH ON HAND:

- Measures the number of days that the university can continue to pay its operating expenses given the amount of cash available. Moody's views the ability to maintain an adequate days cash a credit positive using it to assess credit risk and evaluate credit profiles for higher education institutions. The ABOR established guidelines is to maintain the Monthly Days Cash on Hand ratio within plus or minus 25 percent of Moody's most currently published median among rated public colleges and universities. For 2019, the range is between 116 and 193 days.

DEBT SERVICE COVERAGE RATIO (operating cash flow/debt service)

- Measures the university's ability to cover debt service requirements with operating revenues and is an indicator as to the strength of operating income to meet its annual obligations. In general, a ratio of one or above indicates that there are enough funds to cover upcoming debt payments, while a ratio of below one warns of the potential inability to fully repay the debt. The higher the ratio, the easier it is to obtain favorable financing. Most importantly, creditors can use the DSCR at the outset when deciding whether and how much to lend. The median of all public universities (Moody's) between 2015 and 2018 averaged around 2.4.

PRIMARY MARKET SELECTIVITY (Student Demand: number of acceptances/number of applicants)

- Measures initial student demand. A low selectivity rate and a high yield generally indicate strong demand: the university has more applicants than places in the entering class. As a sector, public colleges and universities have become slightly less selective over time as institutions sought to increase revenues, especially those from out-of-state who often pay higher tuition rates; and as the pipeline for in-state students declines. The median of all public universities (Moody's) between 2015 and 2018 averaged around 73%.

PRIMARY MARKET MATRICULATION (Enrollment Ratio: number of admissions/number of acceptances)

- Measures final student demand, measuring the percent of students admitted who actually attend the university. This ratio helps with enrollment management and in estimating enrollment growth and subsequent tuition and fee revenues. The median of all public universities (Moody's) between 2015 and 2018 averaged around 33%.

ARIZONA STATE UNIVERSITY

TOTAL REVENUE BY SOURCE

Between 2015 and 2019:

- ASU's revenues grew 33 percent from \$2.117 billion to \$2.806 billion.
- State support decreased 6.9 percent and state support as a percent of total revenues decreased from 17 percent to 12 percent.
- As a percent of total revenues, net tuition and fee revenues increased from 48 percent to 51 percent.
- Net tuition and fees increased 39 percent from \$1.02 billion to \$1.42 billion.
- Gifts, Grants and Contracts increased 42 percent, from \$493.0 million to \$702.1 million. As a percent of total revenues, GGC remained constant at between 23-25 percent.

UNIVERSITY NET POSITION

- ASU's net position increased 28 percent between FY 2015 and FY 2019 (32% without GASB adjustments). During that period, the impact on total net position from GASB adjustment for public pension liability/OPEB ranged from \$473.9 million to \$659.2 million.

KEY INDICATORS

ENROLLMENT

- Between FY 2015 and FY 2019, ASU's FTE enrollment increased 28 percent from 81,254 in FY 2015 to 103,654 in FY 2019. ASU realized the largest growth in nonresident students which increased 58 percent for undergraduate students and 51 percent for nonresident graduates. Both resident undergraduate and graduate FTE enrollment increased 10 percent between those years.

EDUCATION AND GENERAL EXPENSES (E&G) per FTE Student

- ASU's E&G expenses per student remained relatively flat growing just 3 percent, from \$16,277 in FY 2015 to \$16,753 in FY 2019. Compared to peer institutions, ASU's E&G per FTE are below peers ranging from 66 percent to 60 percent of peer median between FY 2015 and FY 2018.

SPENDABLE CASH AND INVESTMENTS/TOTAL OPERATING EXPENSES

- ASU's SCI/TOE ratio remained steady between FY 2015 and FY 2018 at between .65 and .69, which tracks with all public university median. Between 2015 and 2018 the all public universities median was between .62 and .66. ASU improved its position in FY 2019 to .76.

OPERATING MARGIN RATIO

- ASU's OMR is consistently higher than the median of all public universities. ASU's OMR reached a high of 6.7% in FY 2016, but has decreased to 3.3% in FY 2019. The all public universities median was between 2.4% and 1.9% between FY 2015 and FY 2018.

MONTHLY DAYS CASH ON HAND

- At 147 days in FY 2019, ASU is within the board's established range of 116 to 193 days, with 154 days as the median in FY 2019.

DEBT SERVICE COVERAGE RATIO

- ASU's DSC ratio has remained consistent ranging from 2.42 in FY 2015 to 2.24 in FY 2019, and tracks with all public universities median range for those years. This means that ASU could more than cover 100 percent of its debt service payments with current operating cash.

PRIMARY MARKET SELECTIVITY AND MATRICULATION

- ASU saw an increase in the number of students accepted to the university from 78 percent in FY 2015 to 81 percent in FY 2019, and the proportion of students admitted who actually enrolled averaged 37 percent. All public universities matriculation decreased from 34 percent in FY 2015 to 31 percent in 2018.

ARIZONA STATE UNIVERSITY

Financial Highlights

| University Revenues, Expenditures and Changes in Net Position | 2015 | 2016 | 2017 | 2018 | 2019 | 2019 Budget |
|--|------------------|------------------|------------------|------------------|------------------|--------------------|
| State | 353,042 | 292,807 | 308,103 | 320,257 | 328,776 | 328,700 |
| Tuition and Fees, Net | 1,021,014 | 1,157,535 | 1,250,828 | 1,323,268 | 1,423,052 | 1,388,200 |
| Gifts, Grants & Contracts | 493,037 | 569,713 | 568,755 | 638,944 | 702,081 | 639,900 |
| Other Revenue | 250,197 | 268,973 | 314,157 | 301,312 | 351,950 | 304,000 |
| Total Revenue | 2,117,290 | 2,289,028 | 2,441,843 | 2,583,781 | 2,805,859 | 2,660,800 |
| Total Expenses | 2,025,050 | 2,180,524 | 2,342,470 | 2,520,707 | 2,720,456 | 2,601,600 |
| Net Increase | 92,240 | 108,504 | 99,373 | 63,074 | 85,403 | 59,200 |
| State as a % of total | 17% | 13% | 13% | 12% | 12% | 12% |
| T&F as % of total | 48% | 51% | 51% | 51% | 51% | 52% |

| University Net Position | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|------------------|------------------|------------------|------------------|------------------|
| Capital Assets | 718,642 | 778,867 | 852,262 | 956,220 | 985,149 |
| Restricted Nonexpendable | 64,833 | 70,544 | 74,102 | 78,813 | 84,714 |
| Restricted Expendable | 109,664 | 117,977 | 124,703 | 119,410 | 118,626 |
| Unrestricted | 161,623 | 253,728 | 282,765 | 115,542 | 166,899 |
| Total Net Position | 1,054,762 | 1,221,116 | 1,333,832 | 1,269,985 | 1,355,388 |
| Total Net Position excluding GASB 68 & 75 (Pension and OPEB liability adjustments) | 1,528,631 | 1,724,590 | 1,870,764 | 1,934,193 | 2,014,580 |

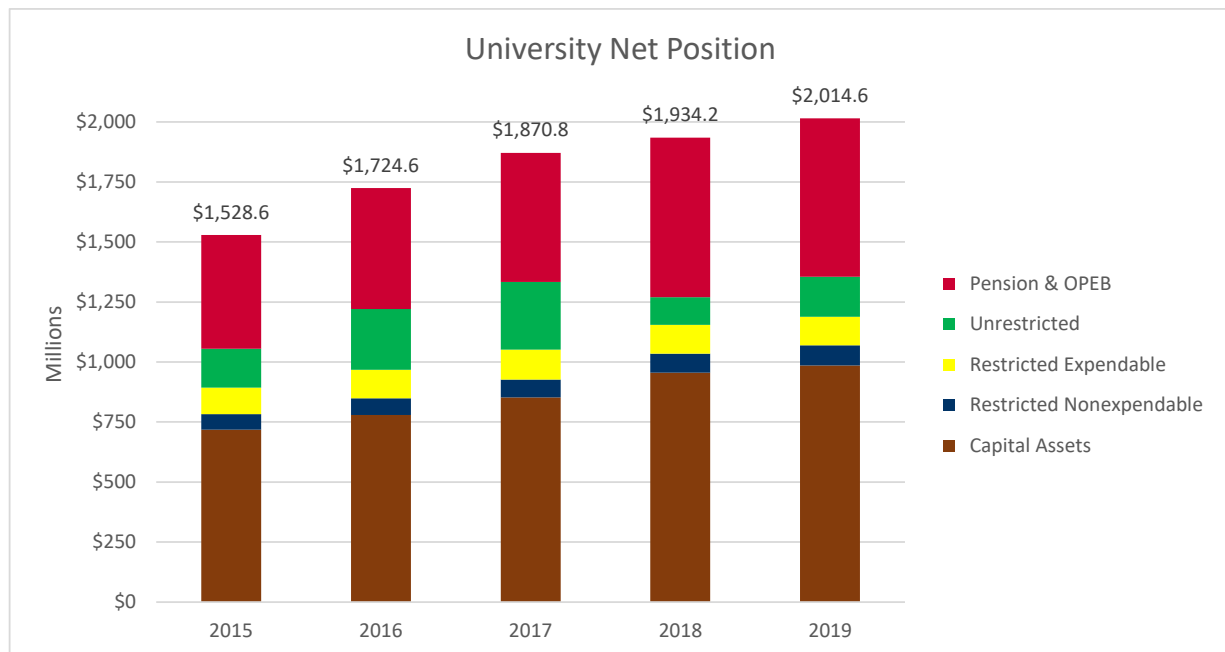
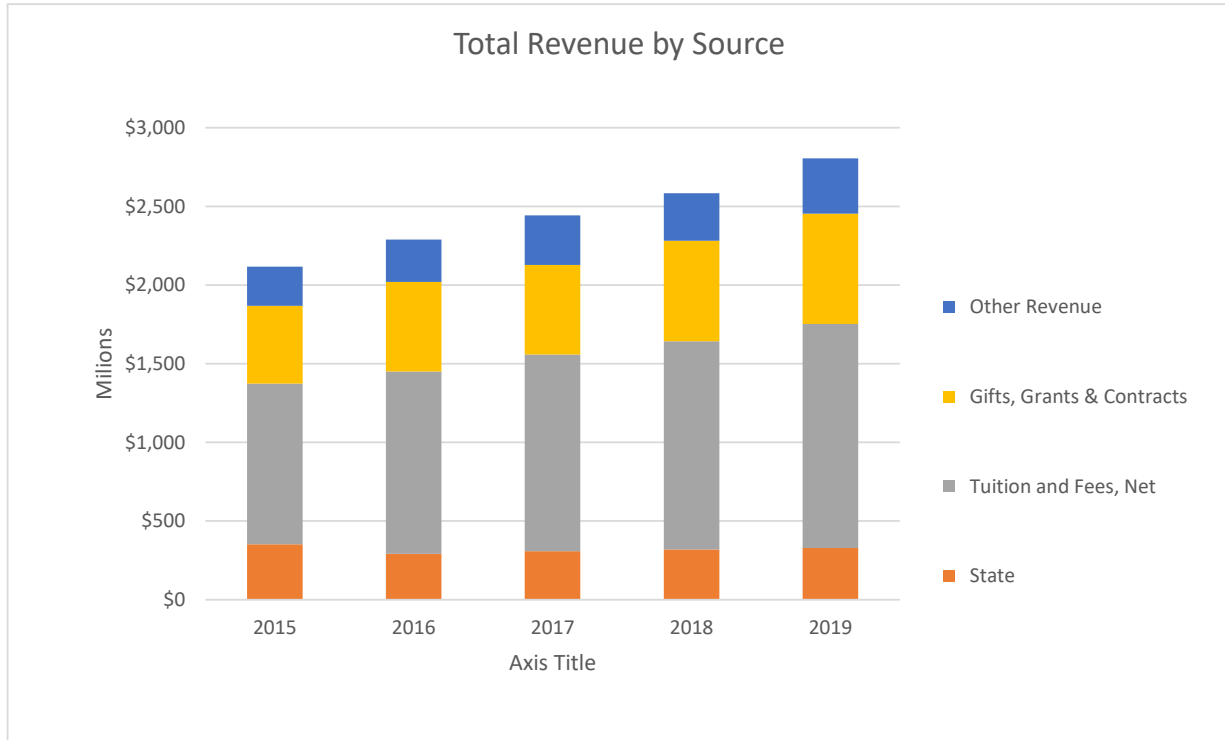
| University Unrestricted Net Position | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|----------------|----------------|----------------|----------------|----------------|
| Unrestricted (with GASB) | 161,623 | 253,728 | 282,765 | 115,542 | 166,899 |
| Pension & OPEB | 473,869 | 503,474 | 536,932 | 664,208 | 659,192 |
| Unrestricted Net Position (unadjusted) | 635,492 | 757,202 | 819,697 | 779,750 | 826,091 |

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---------------|---------------|---------------|---------------|----------------|
| Total FTE Enrollment | 81,254 | 88,742 | 94,077 | 97,950 | 103,654 |
| State General Fund As a Percent of Total Revenues | 17% | 13% | 13% | 12% | 12% |
| Tuition and Fee Revenues as a Percent of Total Revenues | 48% | 51% | 51% | 51% | 51% |
| E&G Expenses per Student | 16,277 | 16,077 | 16,143 | 16,529 | 16,753 |
| E&G Expenses per Student compared to Peer Median | 66% | 64% | 64% | 60% | |
| Spendable Cash & Investments/Operating Expenses | 0.65 | 0.70 | 0.72 | 0.69 | 0.76 |
| SCI/OE All public universities median (Moody's) | 0.62 | 0.63 | 0.65 | 0.66 | |
| Operating Margin Ratio (OMR) | 5.9% | 6.7% | 5.0% | 4.2% | 3.3% |
| OMR All public universities median (Moody's) | 2.4% | 2.5% | 1.4% | 1.9% | |
| Days Cash on Hand (DCOH) | 129 | 152 | 156 | 142 | 147 |
| DCOH All public universities median (Moody's) | 138 | 151 | 149 | 154 | 154 |
| Debt Service Coverage Ratio (DSCR) | 2.42 | 2.86 | 2.62 | 2.52 | 2.24 |
| DSCR All public universities median (Moody's) | 2.44 | 2.43 | 2.41 | 2.34 | |
| Primary Market Selectivity (PMS) | 78% | 76% | 77% | 80% | 81% |
| PMS All public universities median (Moody's) | 72% | 72% | 73% | 74% | |
| Primary Market Matriculation (PMM) | 37% | 37% | 37% | 36% | 38% |
| PMM All public universities median (Moody's) | 34% | 33% | 32% | 31% | |

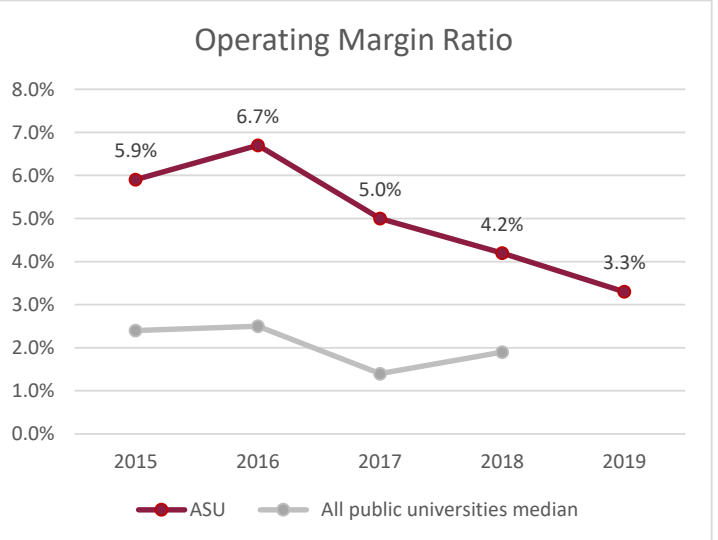
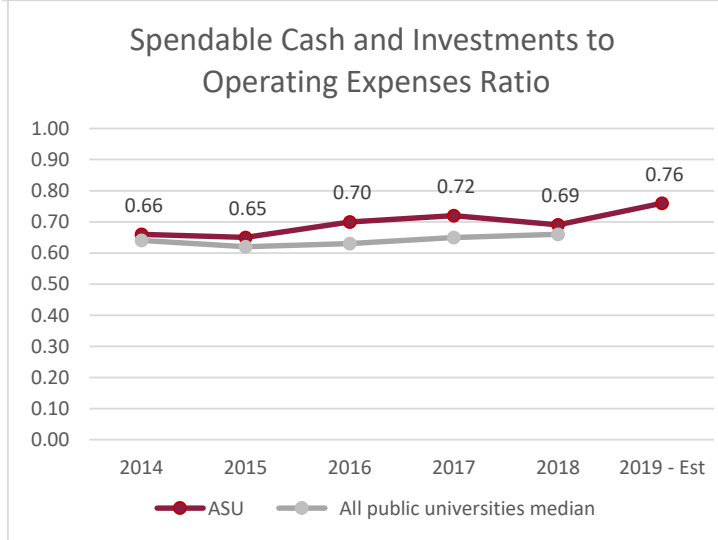
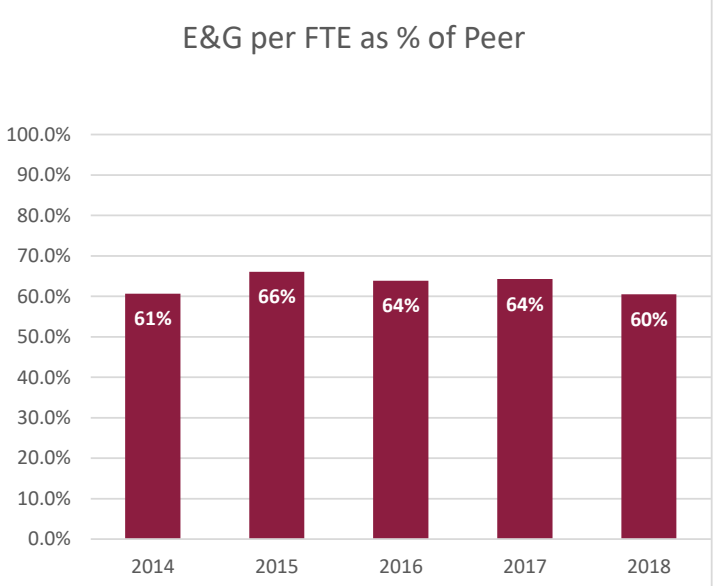
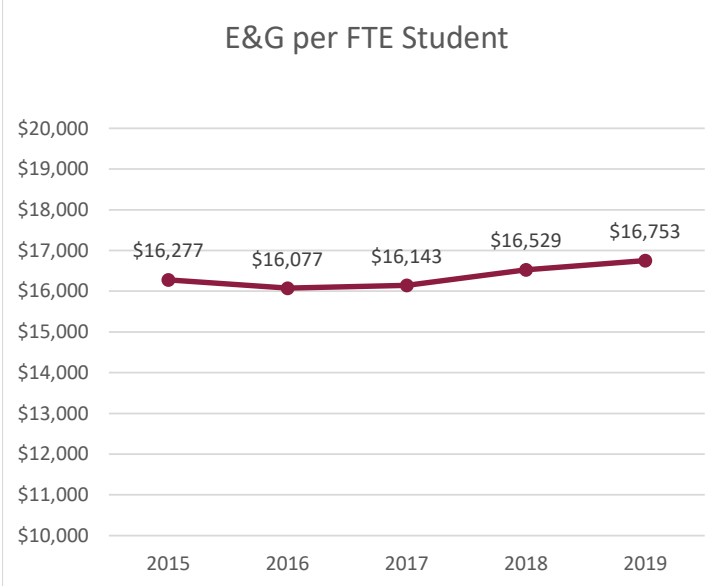
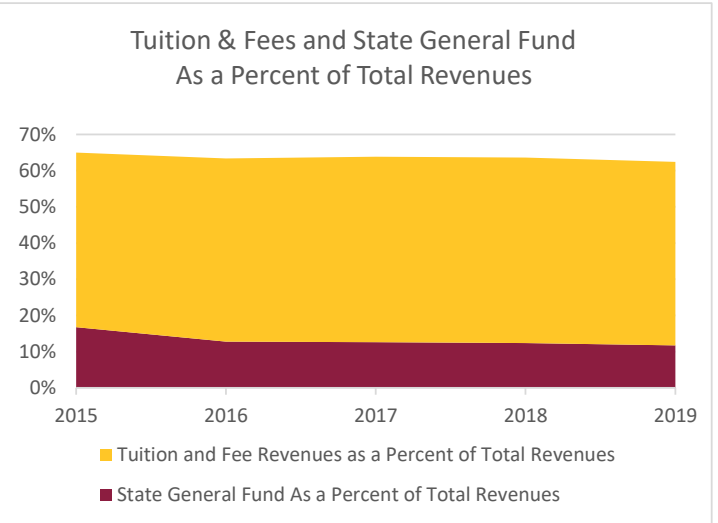
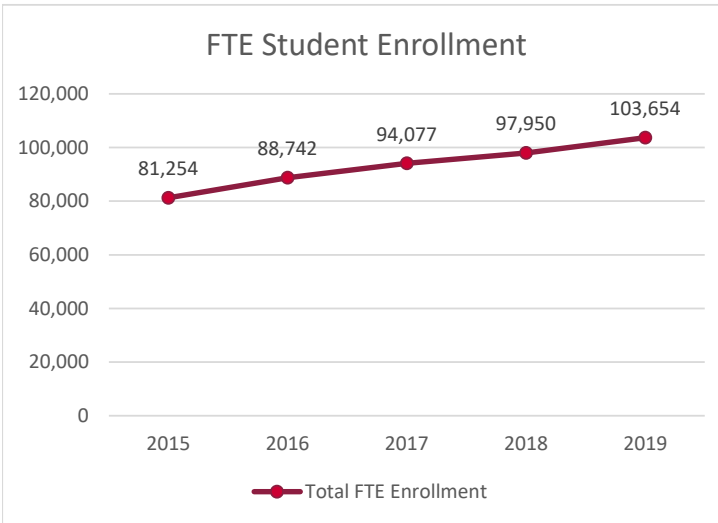
| Credit Ratings | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Moody's | Aa3 | Aa3 | Aa3 | Aa2 | Aa2 |
| | Stable | Positive | Positive | Stable | Stable |
| Standard & Poors (S&P) | AA | AA | AA | AA | AA |
| | Negative | Stable | Stable | Stable | Stable |

This page intentionally left blank

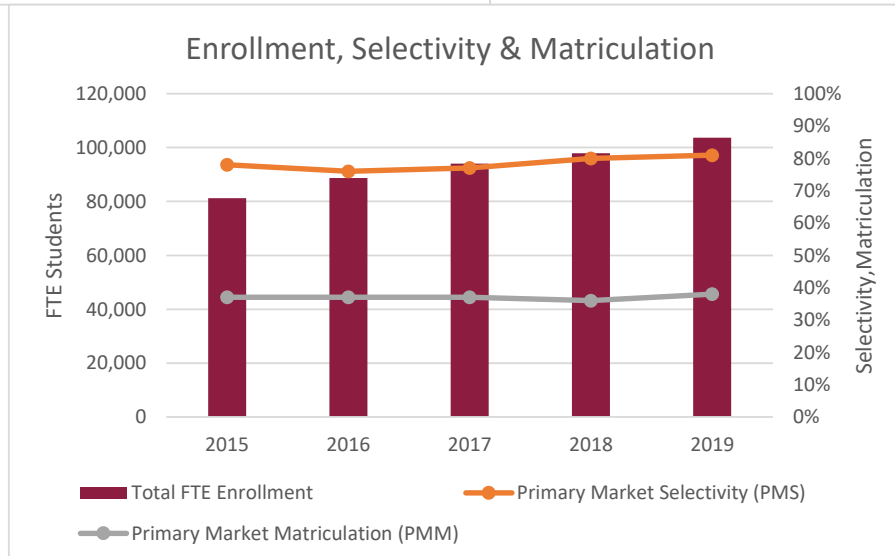
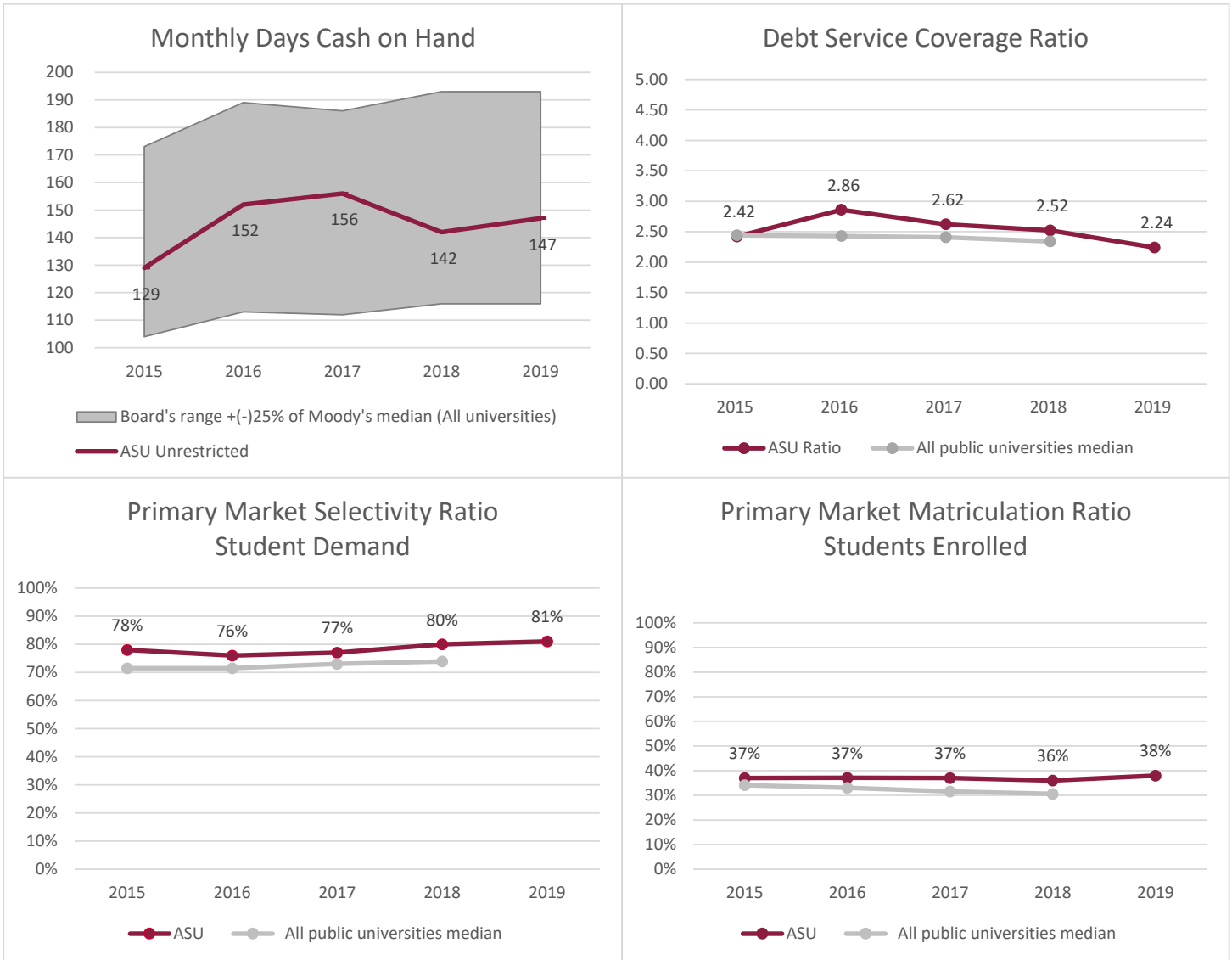
ARIZONA STATE UNIVERSITY FINANCIAL HIGHLIGHTS



ARIZONA STATE UNIVERSITY KEY INDICATORS



ARIZONA STATE UNIVERSITY KEY INDICATORS



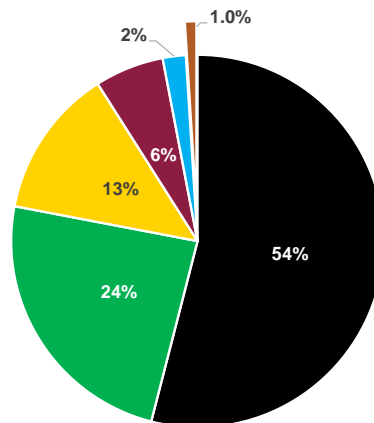
ARIZONA STATE UNIVERSITY

(Dollars in Thousands)

| OPERATING FUND INVESTMENTS | Market Value and Returns | | | |
|----------------------------|--------------------------|-----------|-----------|--------------|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 3-yr Average |
| Year-end Market Value | \$866,027 | \$888,904 | \$907,034 | \$887,322 |
| Net Return | 4.4% | 0.2% | 0.6% | 1.8% |

OPERATING FUND BREAKDOWN BY TYPE OF INVESTMENT (June 30, 2019)

| | |
|-------------------------|-----|
| ■ Corporate Notes/Bonds | 54% |
| ■ Money Market | 24% |
| ■ US Treasury | 13% |
| ■ Agency Bonds | 6% |
| ■ Muni Bonds | 2% |
| ■ Other Investments | 1% |

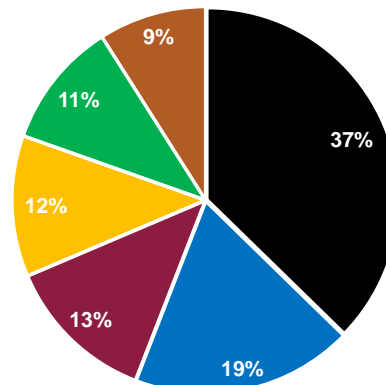


| ENDOWMENT FUNDS INVESTMENTS | Market Value and Returns | | | |
|-----------------------------|--------------------------|-----------|-----------|--------------|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 3-yr Average |
| Pooled Endowments: | | | | |
| Year-end Market Value | \$180,589 | \$75,866 | \$74,351 | \$110,269 |
| Net Return | 10.2% | 6.9% | 12.8% | 10.0% |
| FA Trust Fund: | | | | |
| Year-end Value | \$69,767 | \$61,506 | \$55,767 | \$62,347 |
| Net Return | 10.2% | 6.9% | 12.8% | 10.0% |

OPERATING FUND BREAKDOWN BY TYPE OF INVESTMENT (June 30, 2019)

| | |
|-------------------------|-----|
| ■ Global Ex US Equity | 37% |
| ■ Fixed Income | 19% |
| ■ Real Assets | 13% |
| ■ Absolute Return | 12% |
| ■ Cash/Cash Equivalents | 11% |
| ■ Private Capital | 9% |

(may not equal 100% due to rounding)



NORTHERN ARIZONA UNIVERSITY

TOTAL REVENUE BY SOURCE

Between 2015 and 2019:

- NAU's revenues grew 15 percent from \$523.7 million to \$603.1 million.
- State support decreased 8 percent and state support as a percent of total revenues decreased from 22 percent to 17 percent.
- As a percent of total revenues, net tuition and fee revenues were constant, averaging about 39 percent.
- Net tuition and fees increased 16 percent from \$205.6 million to \$237.6 million.
- Gifts, Grants and Contracts increased 29 percent, from \$111.0 million to \$143.1 million. As a percent of total revenues, GGC remained constant at between 21-23 percent.

UNIVERSITY NET POSITION

- NAU's net position decreased nearly 11 percent between FY 2015 and FY 2019. The decrease occurred in capital assets which decreased \$22.1 million from \$268.0 in FY 2015 to \$245.9 in FY 2019, as debt was issued and recorded for the SAS building, and unrestricted funds with a deficit increase from (\$32,051) to (\$60,756). NAU's unrestricted fund deficit is driven by accounting for pension liabilities. Excluding public pension/OPEB liability, NAU saw an increase of 5% in net position between FY 2015 and FY 2019.

KEY INDICATORS

ENROLLMENT

- Between FY 2015 and FY 2019, NAU's FTE enrollment increased 13 percent from 25,934 FY 2015 to 29,384 in FY 2019. NAU realized the largest growth in nonresident students which increased 16 percent for undergraduate students and 73 percent for nonresident graduates. Resident undergraduate FTE increased 12 percent, but resident graduate FTE decreased 4 percent between FY 2015 and FY 2019.

EDUCATION AND GENERAL EXPENSES (E&G) per FTE Student

- NAU's E&G expenses per student decreased about 7 percent from \$14,017 to \$13,088 between FY 2015 and FY 2019. Since E&G expenses are largely a function of the amount of available revenues to spend on operations, the reduction in E&G/FTE can be explained by increases in student FTE outpacing increases in net tuition and fee revenues. NAU's E&G/FTE aligns with its peers, ranging right at the peer median in FY 2015, to within 95 percent of the peer median in FY 2019.

SPENDABLE CASH AND INVESTMENTS/TOTAL OPERATING EXPENSES

- NAU's SCI/TOE ratio increased in FY 2016 and has remained steady since then, including the .50 in FY 2019. All public universities median ranged from .62 and .66 between FY 2015 and FY 2019.

OPERATING MARGIN RATIO

- NAU's OMR was above the all public university median in FY 2015, but has fallen below the median in subsequent years, from 4% in FY 2015 to 0.7% in FY 2019. The all public universities median was between 2.4% and 1.9% between FY 2015 and FY 2018. Although the last two years are lower than the first three years of this period, NAU has maintained a positive ratio each year and improved the ratio from FY 2018 to FY 2019.

MONTHLY DAYS CASH ON HAND

- At 151 days in FY 2019, NAU is within the board's established range of 116 to 193 days, and has consistently been within range. 154 days was the median in FY 2019.

DEBT SERVICE COVERAGE RATIO

- NAU's DSC ratio decreased from 1.9 to 1.68 between FY 2015 and FY 2019, but still exceeds the 1.20 rate that lenders consider good. This means that NAU can cover 100% of its debt service payment with current operating cash. The median of all public universities was 2.44 in FY 2015 to 2.34 in FY 2018.

PRIMARY MARKET SELECTIVITY AND MATRICULATION

- NAU saw an increase in the number of students accepted to the university from 76 percent in FY 2015 to 84 percent in FY 2019. However, even with an increase in admittance, the proportion of students who actually enrolled dropped from 24 percent in FY 2015 to 18 percent in FY 2019. All public universities matriculation decreased from 34 percent in FY 2015 to 31 percent in 2018.

NORTHERN ARIZONA UNIVERSITY

Financial Highlights

| University Revenues, Expenditures and Changes in Net Position | 2015 | 2016 | 2017 | 2018 | 2019 | 2019 Budget |
|---|---------|---------|---------|---------|---------|-------------|
| State | 112,026 | 94,633 | 100,105 | 99,716 | 103,200 | 112,200 |
| Tuition and Fees, Net | 205,550 | 217,047 | 237,930 | 236,790 | 237,605 | 257,300 |
| Gifts, Grants & Contracts | 111,038 | 119,272 | 126,508 | 134,355 | 143,107 | 140,900 |
| Other Revenue | 95,059 | 100,724 | 113,589 | 119,434 | 119,140 | 117,200 |
| Total Revenue | 523,673 | 531,676 | 578,132 | 590,295 | 603,052 | 627,600 |
| Total Expenses | 513,619 | 540,332 | 572,920 | 584,857 | 586,240 | 621,800 |
| Net Increase | 10,054 | (8,656) | 5,212 | 5,438 | 16,812 | 5,800 |

| University Net Position | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|----------|----------|----------|----------|----------|
| Capital Assets | 268,007 | 265,882 | 269,240 | 232,568 | 245,903 |
| Restricted Nonexpendable | 22,540 | 23,593 | 24,625 | 25,107 | 26,258 |
| Restricted Expendable | 32,598 | 32,184 | 39,193 | 44,594 | 48,146 |
| Unrestricted | (32,051) | (39,221) | (45,408) | (59,530) | (60,756) |
| Total Net Position | 291,094 | 282,438 | 287,650 | 242,739 | 259,551 |
| Total Net Position excluding GASB 68 & 75 (Pension and OPEB liability adjustments) | 452,742 | 455,012 | 471,965 | 474,883 | 476,600 |

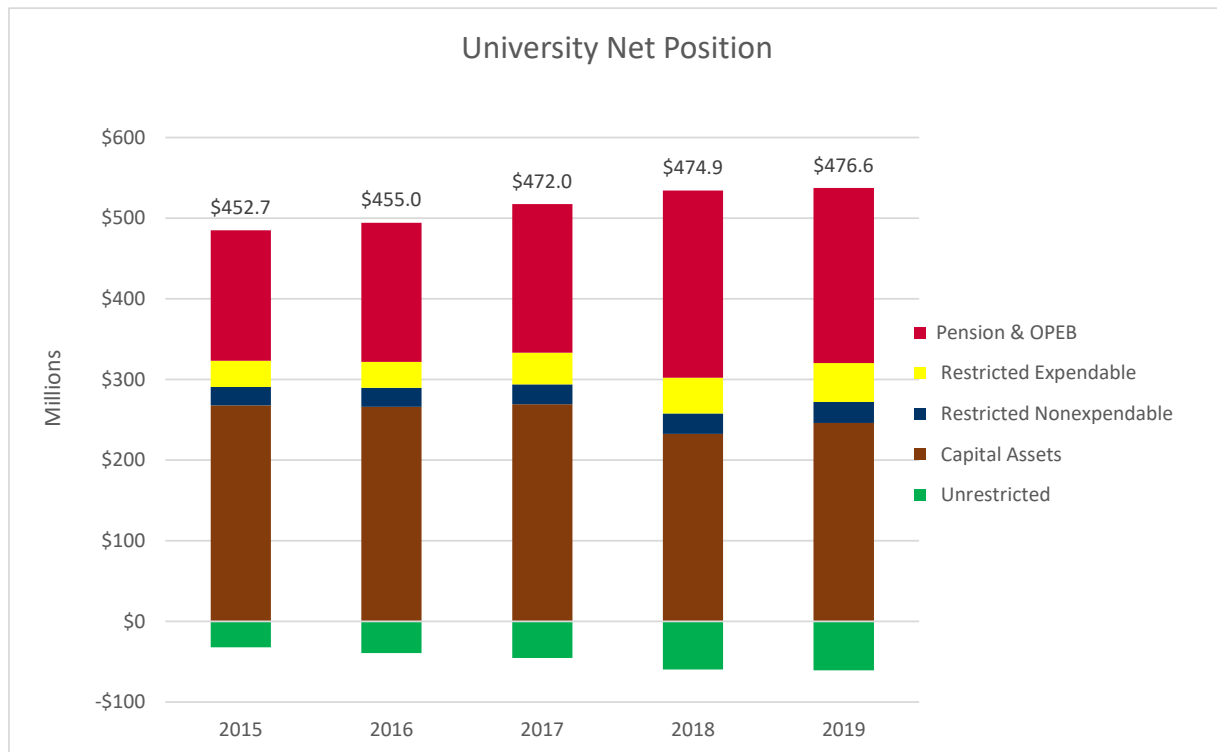
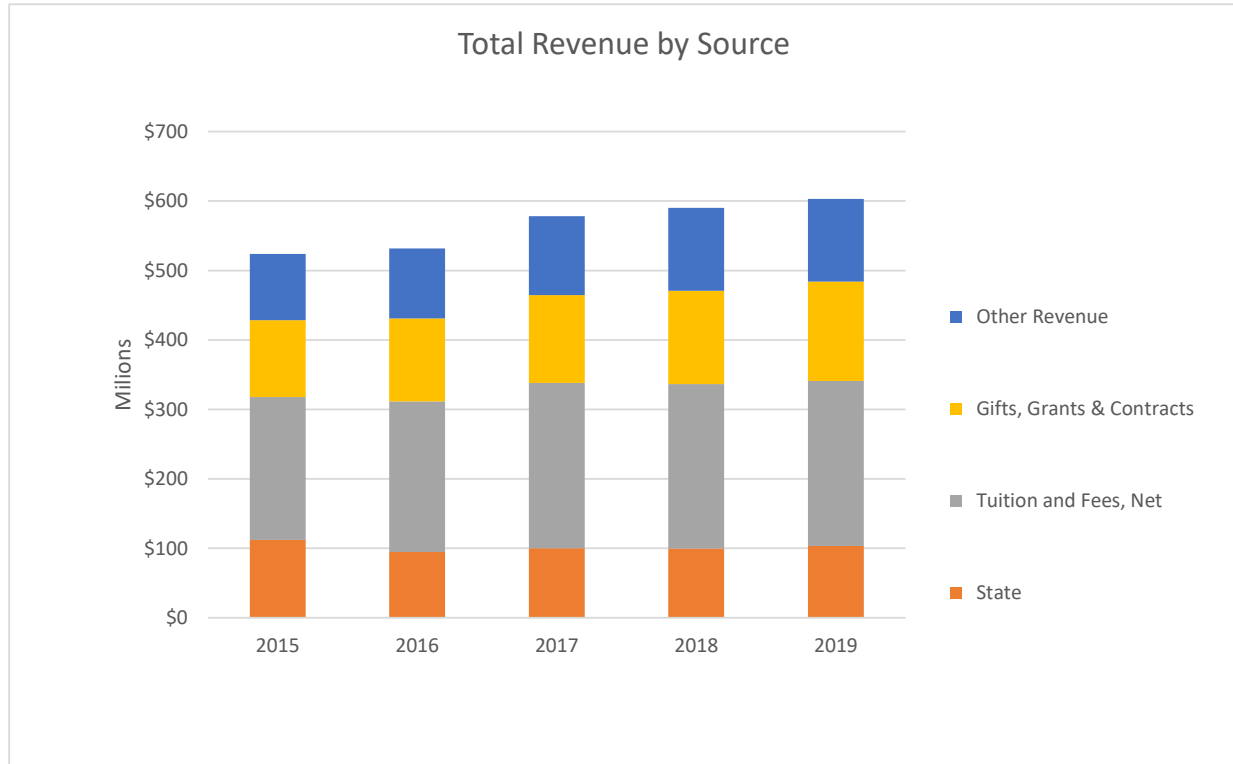
| University Unrestricted Net Position | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|----------|----------|----------|----------|----------|
| Unrestricted (with GASB) | (32,051) | (39,221) | (45,408) | (59,530) | (60,756) |
| Pension & OPEB | 161,648 | 172,574 | 184,315 | 232,144 | 217,049 |
| Unrestricted Net Position (unadjusted) | 129,597 | 133,353 | 138,907 | 172,614 | 156,293 |

| Key Indicators | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|--------|--------|--------|--------|--------|
| Total FTE Enrollment | 25,934 | 27,374 | 28,710 | 29,524 | 29,384 |
| State General Fund As a Percent of Total Revenues | 21% | 18% | 17% | 17% | 17% |
| Tuition and Fee Revenues as a Percent of Total Revenues | 39% | 41% | 41% | 40% | 39% |
| E&G Expenses per Student | 14,017 | 13,400 | 13,611 | 13,336 | 13,088 |
| E&G Expenses per Student compared to Peer Median | 100% | 108% | 96% | 95% | |
| Spendable Cash & Investments/Operating Expenses | 0.40 | 0.50 | 0.50 | 0.50 | 0.50 |
| SCI/OE All public universities median (Moody's) | 0.62 | 0.63 | 0.65 | 0.66 | |
| Operating Margin Ratio (OMR) | 4.0% | 1.6% | 2.7% | 0.5% | 0.7% |
| OMR All public universities median (Moody's) | 2.4% | 2.5% | 1.4% | 1.9% | |
| Days Cash on Hand (DCOH) | 124 | 150 | 151 | 161 | 151 |
| DCOH All public universities median (Moody's) | 138 | 151 | 149 | 154 | 154 |
| Debt Service Coverage Ratio (DSCR) | 1.90 | 1.42 | 1.70 | 1.65 | 1.68 |
| DSCR All public universities median (Moody's) | 2.44 | 2.43 | 2.41 | 2.34 | |
| Primary Market Selectivity (PMS) | 76% | 79% | 84% | 84% | 84% |
| PMS All public universities median (Moody's) | 72% | 72% | 73% | 74% | |
| Primary Market Matriculation (PMM) | 24% | 20% | 20% | 20% | 18% |
| PMM All public universities median (Moody's) | 34% | 33% | 32% | 31% | |

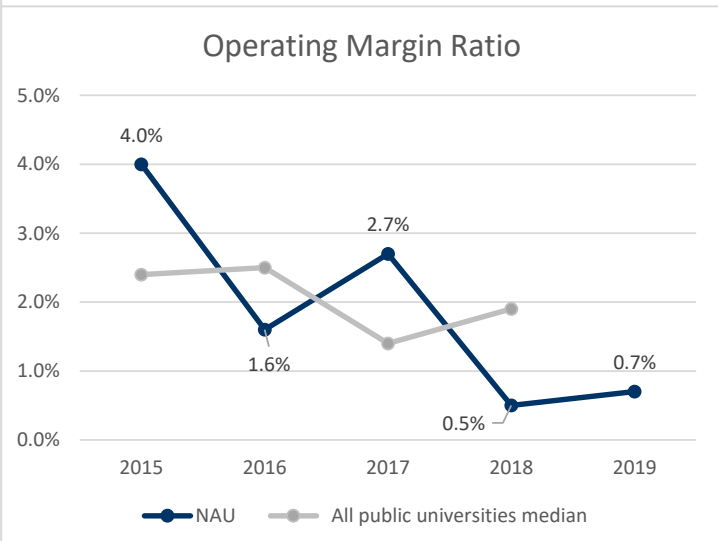
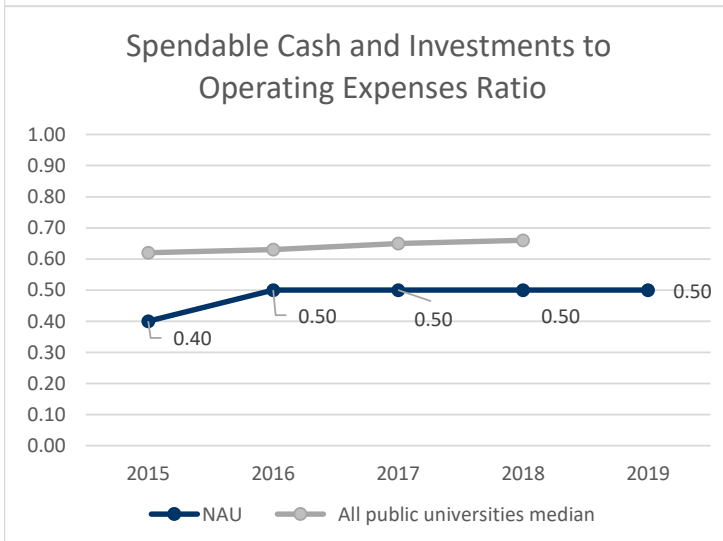
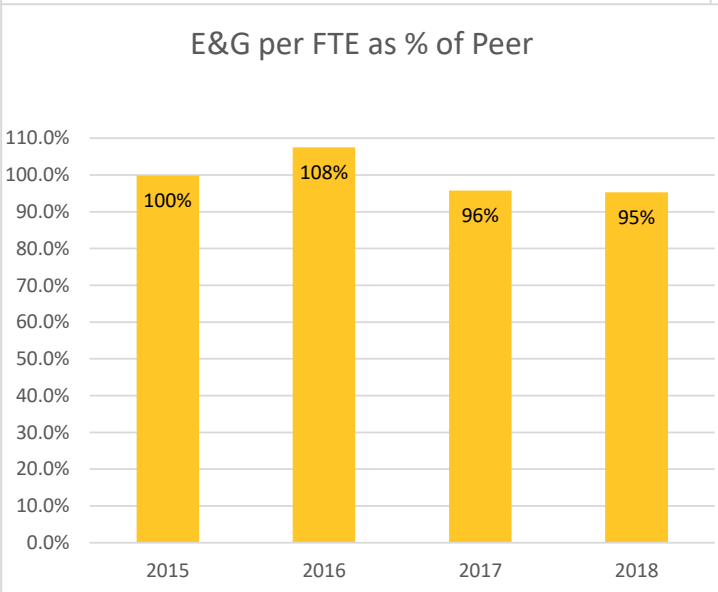
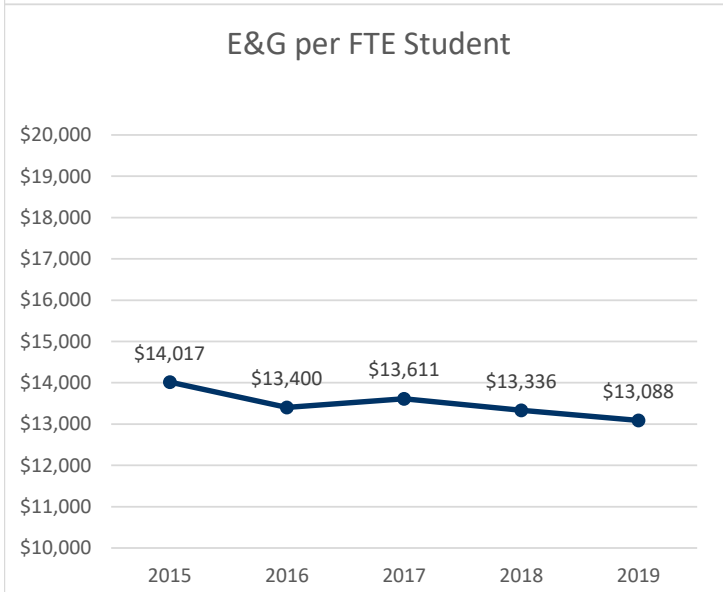
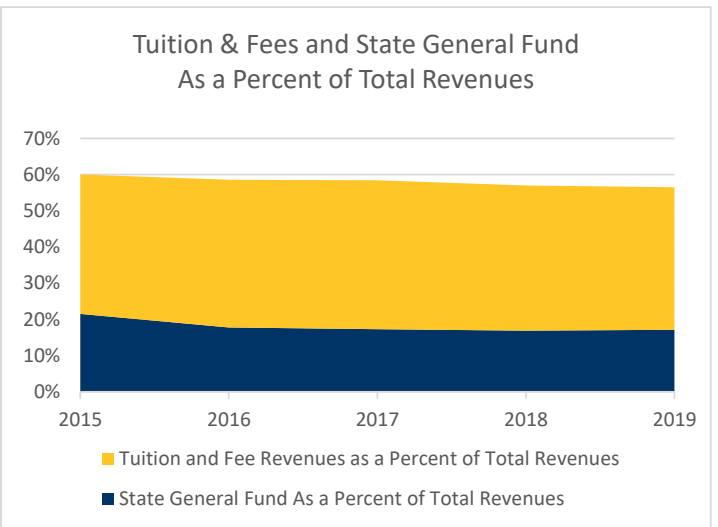
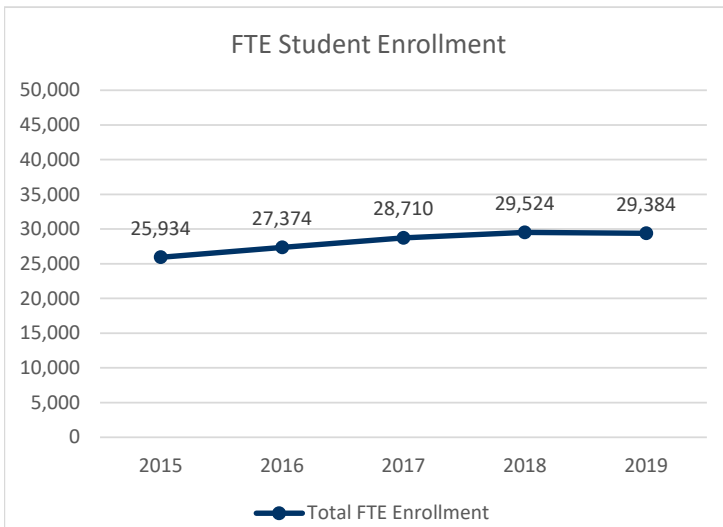
| Credit Ratings | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------|--------|--------|--------|--------|--------|
| Moody's | A1 | A1 | A1 | A1 | A1 |
| | Stable | Stable | Stable | Stable | Stable |
| Standard & Poors (S&P) | A+ | A+ | A+ | A+ | A+ |
| | Stable | Stable | Stable | Stable | Stable |

This page intentionally left blank

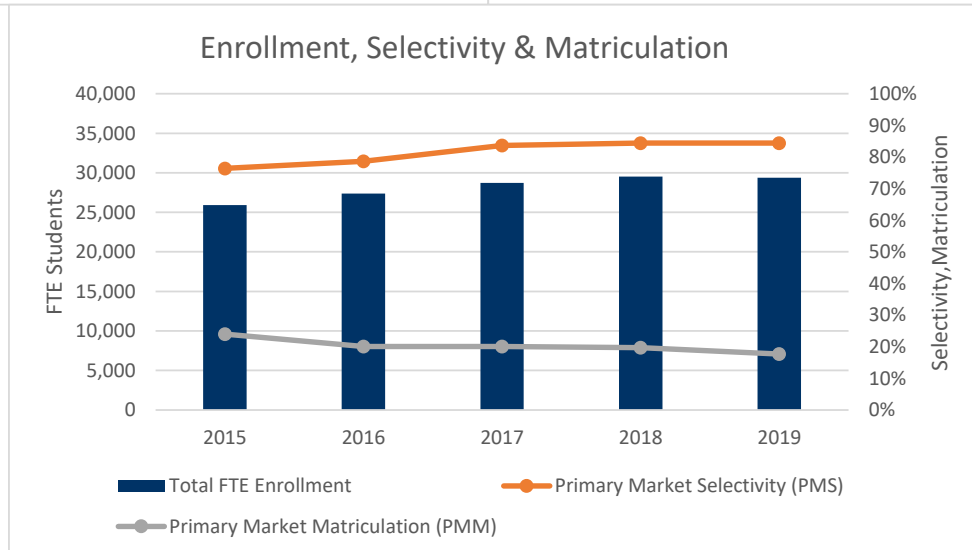
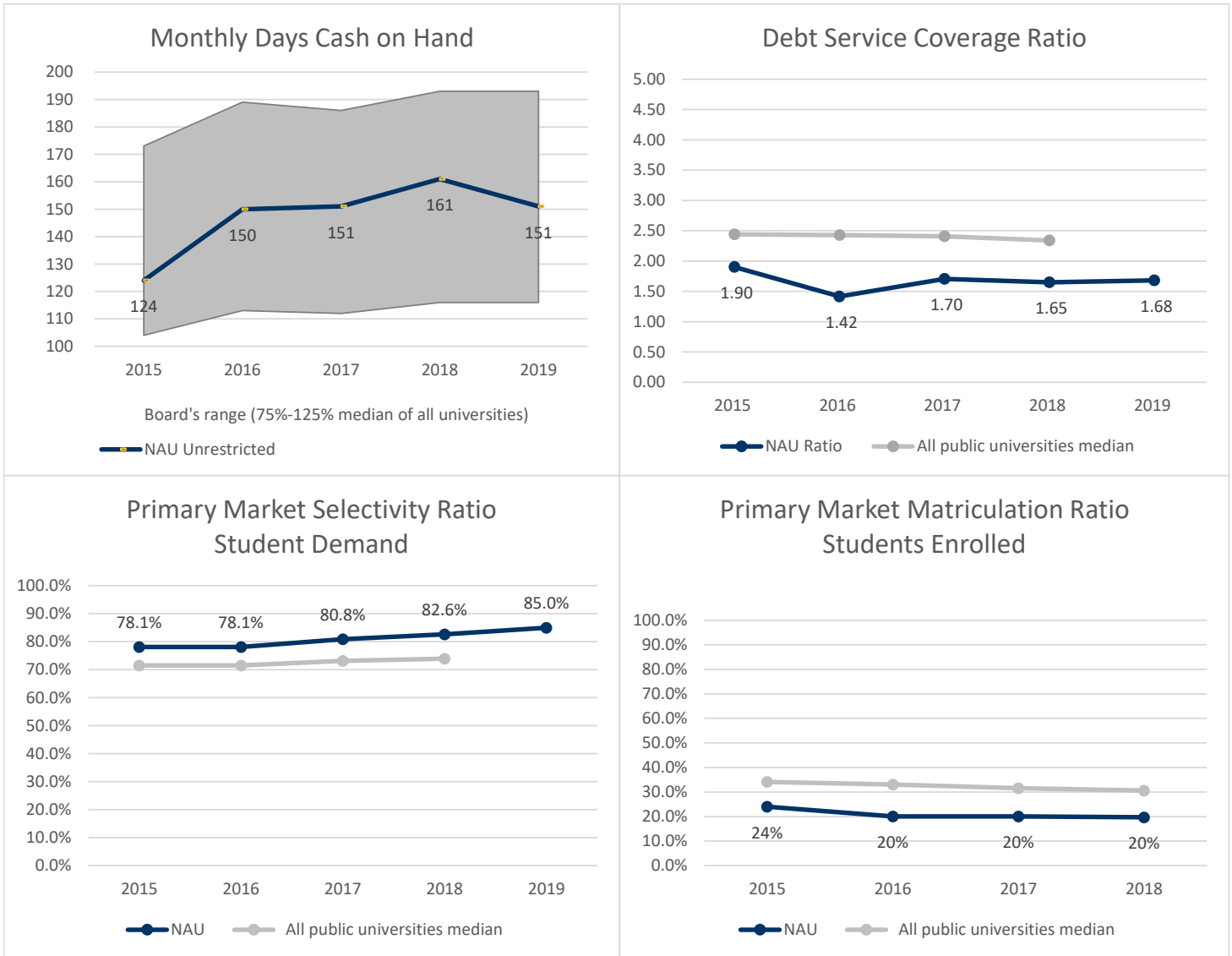
NORTHERN ARIZONA UNIVERSITY FINANCIAL HIGHLIGHTS



NORTHERN ARIZONA UNIVERSITY KEY INDICATORS



NORTHERN ARIZONA UNIVERSITY KEY INDICATORS



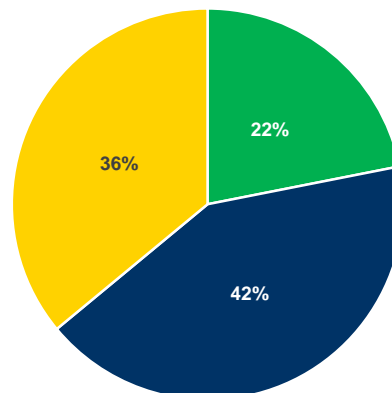
NORTHERN ARIZONA UNIVERSITY

(Dollars in Thousands)

| OPERATING FUND INVESTMENTS | Market Value and Returns | | | |
|----------------------------|--------------------------|-----------|-----------|--------------|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 3-yr Average |
| Year-end Market Value | \$192,056 | \$196,313 | \$171,659 | \$186,676 |
| Net Return | 1.3% | 0.5% | 0.5% | 0.8% |

**OPERATING FUND BREAKDOWN BY TYPE OF INVESTMENT
(June 30, 2019)**

| | |
|---------------------------------|-----|
| Cash/Cash Equivalents (Savings) | 22% |
| LGIP Pool 4 | 42% |
| Agency Bonds | 36% |

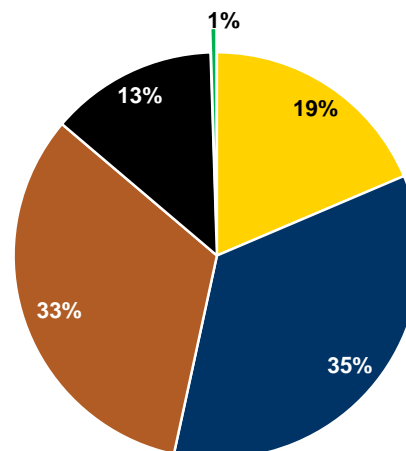


| ENDOWMENT FUNDS INVESTMENTS | Market Value and Returns | | | |
|-----------------------------|--------------------------|-----------|-----------|--------------|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 3-yr Average |
| Pooled Endowments: | | | | |
| Year-end Market Value | \$7,552 | \$7,563 | \$7,298 | \$7,471 |
| Net Return | 2.2% | 4.4% | 6.1% | 4.2% |
| FA Trust Fund: | | | | |
| Year-end Market Value | \$26,157 | \$24,534 | \$23,224 | \$24,638 |
| Net Return | 1.9% | 8.0% | 6.3% | 5.4% |

**OPERATING FUND BREAKDOWN BY TYPE OF INVESTMENT
(June 30, 2019)**

| | |
|-----------------------|-----|
| Bonds | 19% |
| US Equity | 35% |
| Global Ex US Equity | 33% |
| Real Estate | 13% |
| Cash/Cash Equivalents | 1% |

(may not equal 100% due to rounding)



UNIVERSITY OF ARIZONA

TOTAL REVENUE BY SOURCE

Between 2015 and 2019:

- UA's revenues grew 7 percent from \$2.042 billion to \$2.188 billion.
- State support decreased 1.4 percent and state support as a percent of total revenues decreased from 14 percent to 13 percent.
- As a percent of total revenues, net tuition and fee revenues increased from 27 percent to 30 percent.
- Net tuition and fees increased 19 percent from \$554.8 million to \$658.1 million.
- Gifts, Grants and Contracts increased nearly 10 percent, from \$773.2 million to \$848.5 million. As a percent of total revenues, GGC remained constant at 38 percent.

UNIVERSITY NET POSITION

- UA's net position increased 22 percent between FY 2015 and FY 2019 (with and without GASB adjustments). During that period GASB adjustments for public pension liability/OPEB ranged from \$614.0 million to \$745.2 million.

KEY INDICATORS

ENROLLMENT

- Between FY 2015 and FY 2019, UA's FTE enrollment increased 5 percent from 42,388 in FY 2015 to 44,376. Excluding medical students, UA realized the largest growth in nonresident students which increased 8.3 percent for undergraduate students and 9.6 percent for nonresident graduates. Both resident undergraduate and graduate FTE enrollment increased slightly at 2.3 percent, between those years.

EDUCATION AND GENERAL EXPENSES (E&G) per FTE Student

- UA's E&G expenses per student grew 18 percent from \$24,311 in FY 2015 to \$28,720 in FY 2019. Compared to peer institutions, UA's E&G per FTE are below peers ranging from 86 percent to 79 percent of peer median between FY 2015 and FY 2018.

SPENDABLE CASH AND INVESTMENTS/TOTAL OPERATING EXPENSES

- UA's SCI/TOE ratio increased between FY 2015 and FY 2019, from .45 to .52, Although below all public universities median, UA's improvement moved it closer to the all public universities median from nearly 38 percent below the median in FY 2015 to 18 percent below the median in FY 2018. Between 2015 and 2018 the all public universities median was between .62 and .66, respectively.

OPERATING MARGIN RATIO

- OMR can fluctuate from year to year, due to irregular timing of when revenues and expenditures are incurred. The UA is no exception with an OMR of 6.6 percent in FY 2015 down to -0.6 percent in FY 2019. The decreases in FY 2018 and FY2019 are due to near-flat levels of tuition and fees revenues, and in FY19 increases in expense levels to investments in strategically targeted areas. The median of all public universities was between 2.4 and 1.9 percent between those years.

MONTHLY DAYS CASH ON HAND

- At 151 days in FY 2019, the UA is within the board's established range of 116 to 193 days. With 154 days as the median in FY2019.

DEBT SERVICE COVERAGE RATIO

- UA's DSC ratio decrease from 3.3 in FY 2015 to 1.52 in FY 2019. This means that the UA could still cover 100 percent of its debt service payments with current operating cash. The reduction in this ratio is to due UA's planned effort to use a portion of its cash reserves for bridge-funding or one-time investments in various capital projects. The median of all public universities in between 2.44 and 2.34 between FY 2015 and FY 2018, respectively.

PRIMARY MARKET SELECTIVITY AND MATRICULATION

- UA saw an increase in the number of students accepted to the university from 76 percent in FY 2015 to 85 percent in FY 2019. However, even with an increase in admittance, the proportion of students who actually enrolled dropped from 30 percent in FY 2015 to 22 percent in FY 2019. This follows, albeit more drastically the national trend for all public universities where the median decreased from 34 percent in FY 2015 to 31 percent in 2018. This is also reflective of UA's slight enrollment growth between those years.

UNIVERSITY OF ARIZONA

Financial Highlights

| University Revenues, Expenditures and Changes in Net Position | 2015 | 2016 | 2017 | 2018 | 2019 | 2019 Budget |
|---|-----------|-----------|-----------|-----------|-----------|-------------|
| State | 281,742 | 250,851 | 267,124 | 269,038 | 277,734 | 277,700 |
| Tuition and Fees, Net | 554,768 | 608,679 | 653,725 | 653,519 | 658,090 | 670,300 |
| Gifts, Grants & Contracts | 773,235 | 834,308 | 804,371 | 816,152 | 848,485 | 792,000 |
| Other Revenue | 432,390 | 347,040 | 384,567 | 384,324 | 403,350 | 395,900 |
| Total Revenue | 2,042,135 | 2,040,878 | 2,109,787 | 2,123,033 | 2,187,659 | 2,135,900 |
| Total Expenses | 1,847,924 | 1,932,261 | 1,954,104 | 2,060,678 | 2,161,978 | 2,099,400 |
| Net Increase | 194,211 | 108,617 | 155,683 | 62,355 | 25,681 | 36,500 |

| University Net Position | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-----------|-----------|-----------|-----------|-----------|
| Capital Assets | 637,380 | 687,149 | 730,135 | 776,373 | 801,215 |
| Restricted Nonexpendable | 138,464 | 134,356 | 142,774 | 154,227 | 161,496 |
| Restricted Expendable | 218,805 | 238,522 | 241,080 | 244,542 | 233,337 |
| Unrestricted | (124,204) | (80,965) | 20,756 | (135,502) | (130,727) |
| Total Net Position | 870,445 | 979,062 | 1,134,745 | 1,039,640 | 1,065,321 |
| Total Net Position excluding GASB 68 & 75 (Pension and OPEB liability adjustments) | 1,484,447 | 1,616,768 | 1,785,309 | 1,814,341 | 1,810,559 |

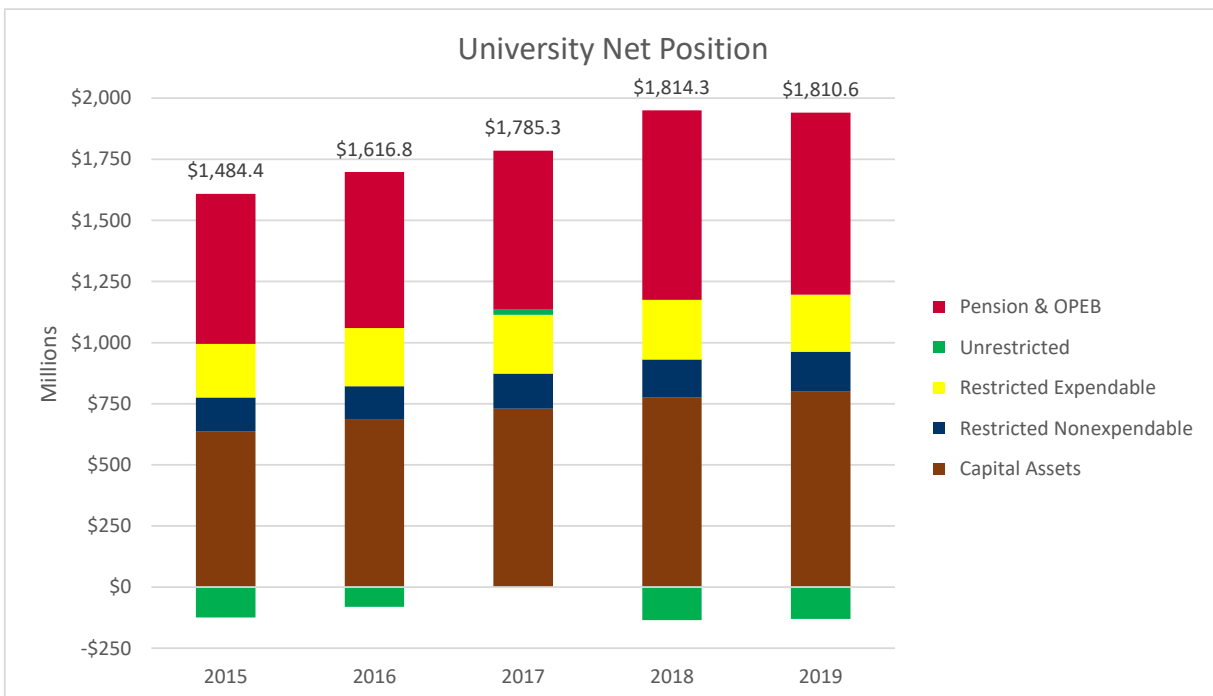
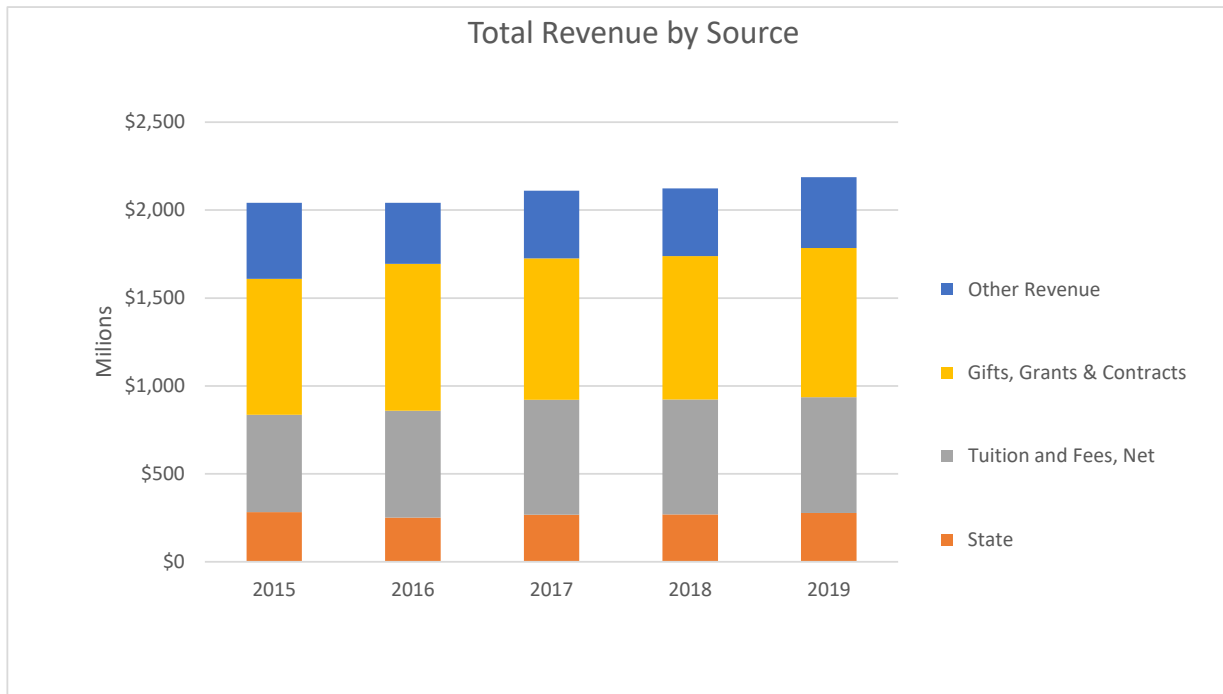
| University Unrestricted Net Position | 2015 | 2016 | 2017 | 2018 | 2019 |
|--|-----------|----------|---------|-----------|-----------|
| Unrestricted (with GASB) | (124,204) | (80,965) | 20,756 | (135,502) | (130,727) |
| Pension & OPEB | 614,002 | 637,706 | 650,564 | 774,701 | 745,238 |
| Unrestricted Net Position (unadjusted) | 489,798 | 556,741 | 671,320 | 639,199 | 614,511 |

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|--------|--------|--------|--------|--------|
| Total FTE Enrollment | 42,388 | 43,323 | 43,570 | 44,129 | 44,376 |
| State General Fund As a Percent of Total Revenues | 14% | 12% | 13% | 13% | 13% |
| Tuition and Fee Revenues as a Percent of Total Revenues | 27% | 30% | 31% | 31% | 30% |
| E&G Expenses per Student | 24,311 | 26,543 | 26,468 | 27,510 | 28,720 |
| E&G Expenses per Student compared to Peer Median | 86% | 81% | 81% | 79% | |
| Spendable Cash & Investments/Operating Expenses | 0.45 | 0.53 | 0.60 | 0.56 | 0.52 |
| SCI/OE All public universities median (Moody's) | 0.62 | 0.63 | 0.65 | 0.66 | |
| Operating Margin Ratio (OMR) | 6.6% | 7.5% | 8.0% | 1.5% | -0.6% |
| OMR All public universities median (Moody's) | 2.4% | 2.5% | 1.4% | 1.9% | |
| Days Cash on Hand (DCOH) | 139 | 170 | 184 | 177 | 151 |
| DCOH All public universities median (Moody's) | 138 | 151 | 149 | 154 | 154 |
| Debt Service Coverage Ratio (DSCR) | 3.30 | 3.08 | 2.89 | 1.85 | 1.52 |
| DSCR All public universities median (Moody's) | 2.44 | 2.43 | 2.41 | 2.34 | |
| Primary Market Selectivity (PMS) | 76% | 79% | 84% | 84% | 85% |
| PMS All public universities median (Moody's) | 72% | 72% | 73% | 74% | |
| Primary Market Matriculation (PMM) | 30% | 27% | 26% | 23% | 22% |
| PMM All public universities median (Moody's) | 34% | 33% | 32% | 31% | |

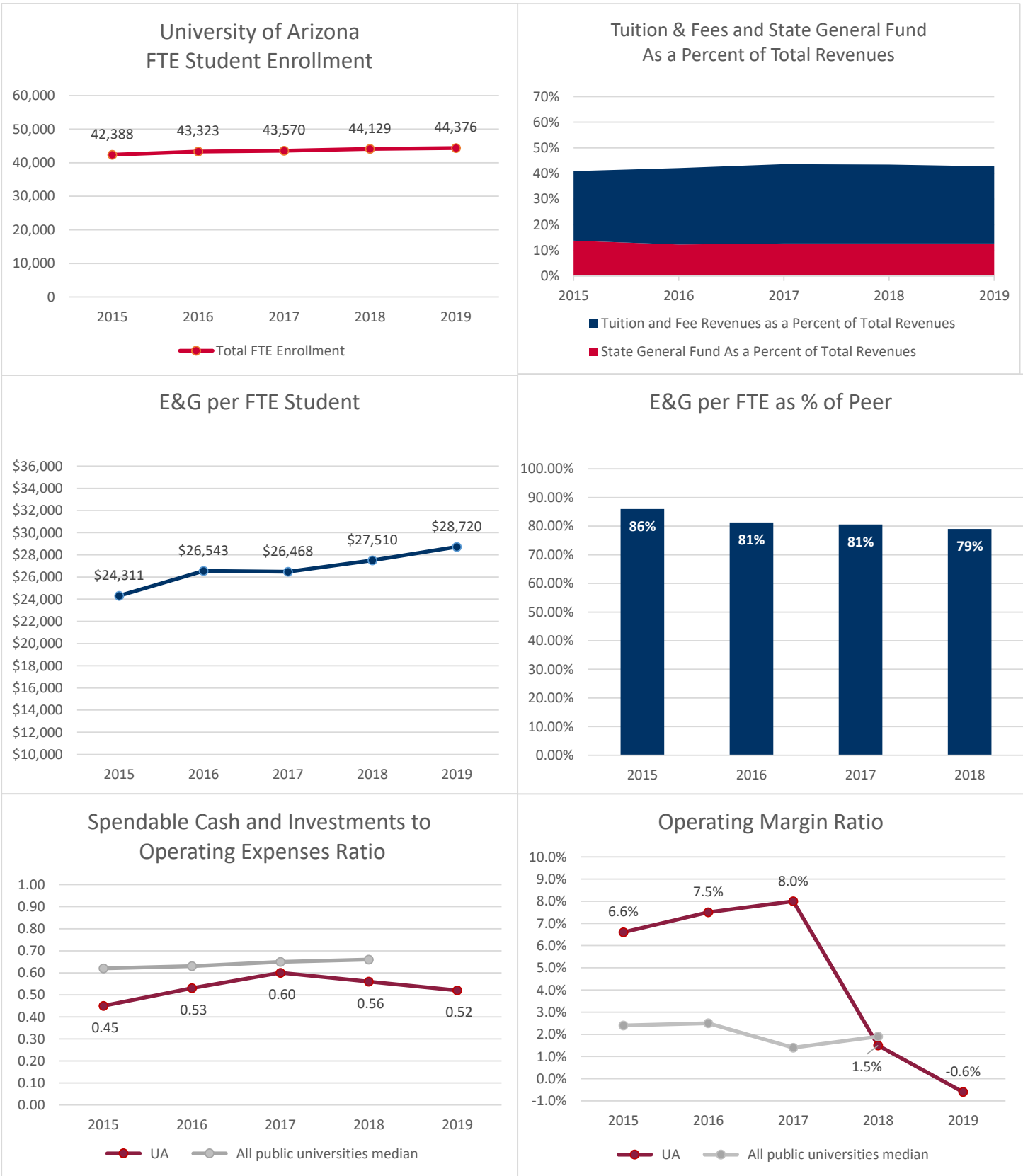
| Credit Ratings | 2015 | 2016 | 2017 | 2018 | 2019 |
|------------------------|--------|--------|--------|--------|--------|
| Moody's | Aa2 | Aa2 | Aa2 | Aa2 | Aa2 |
| | Stable | Stable | Stable | Stable | Stable |
| Standard & Poors (S&P) | AA- | AA- | AA- | AA- | AA- |
| | Stable | Stable | Stable | Stable | Stable |

This page intentionally left blank

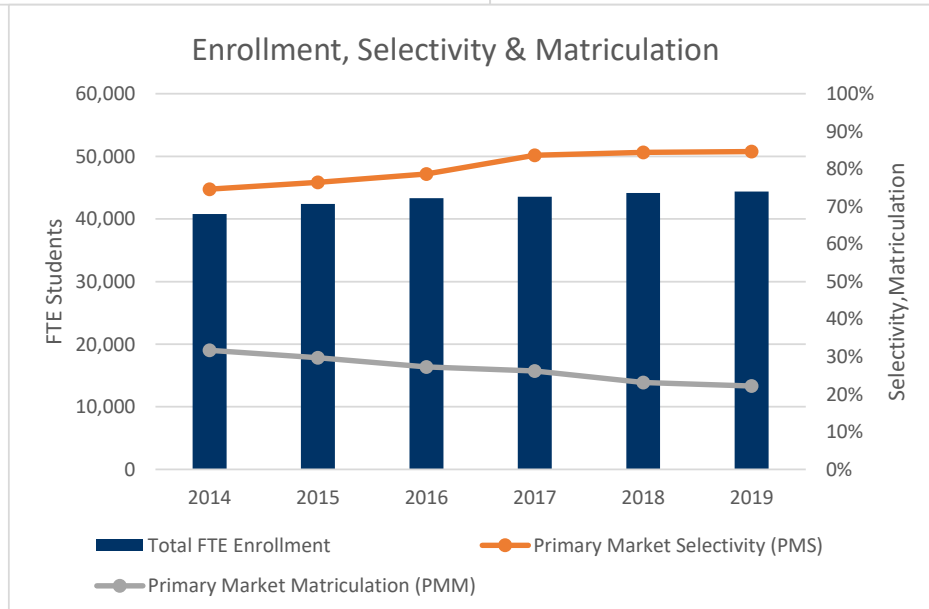
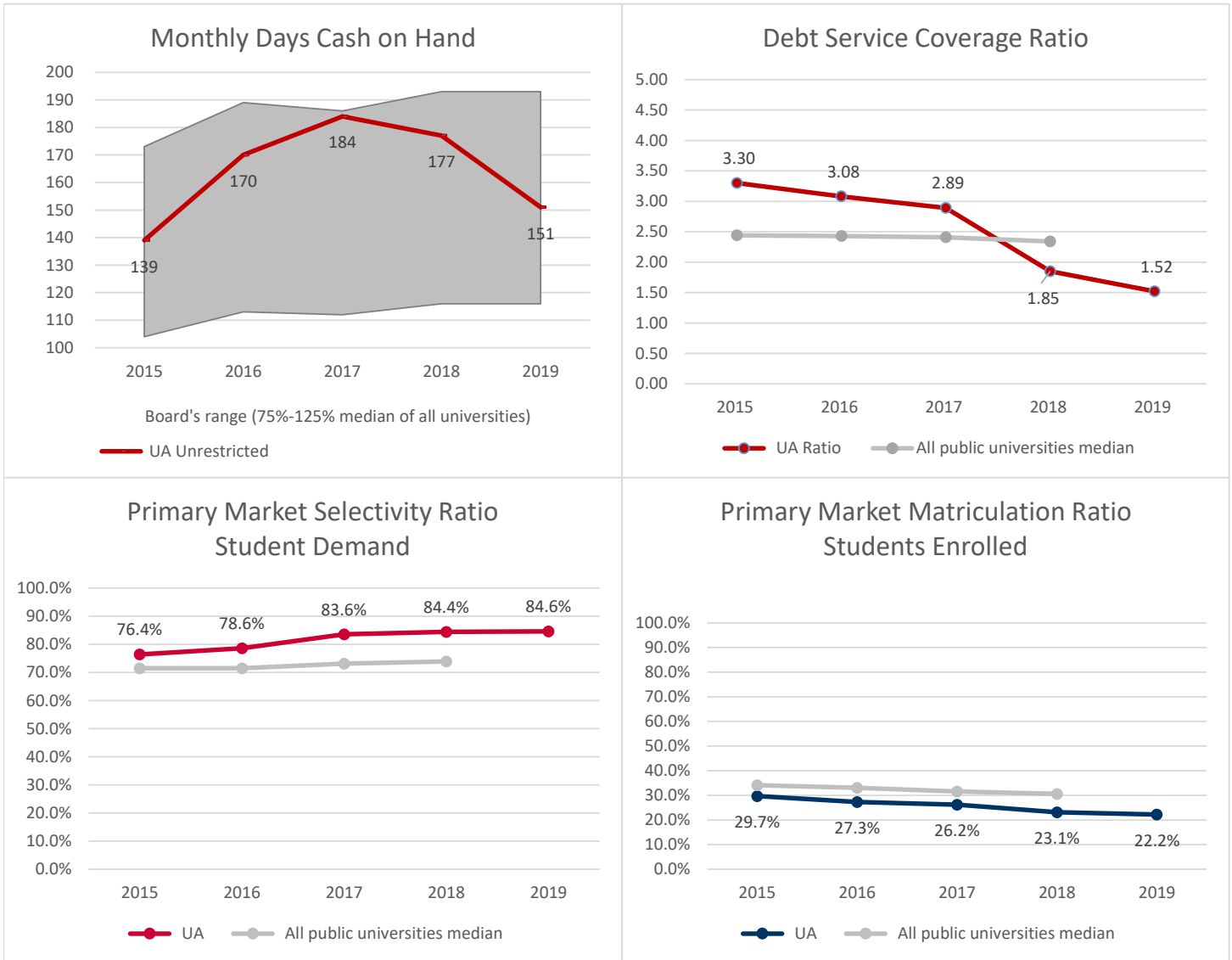
UNIVERSITY OF ARIZONA FINANCIAL HIGHLIGHTS



UNIVERSITY OF ARIZONA KEY INDICATORS



UNIVERSITY OF ARIZONA KEY INDICATORS



UNIVERSITY OF ARIZONA

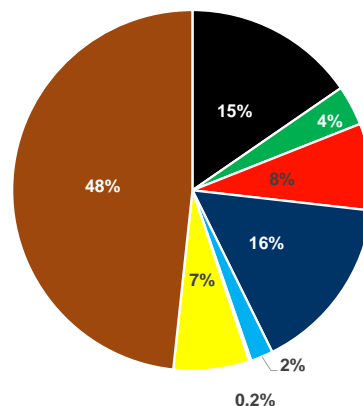
(Dollars in Thousands)

| OPERATING FUND INVESTMENTS | Market Value and Returns | | | |
|----------------------------|--------------------------|-----------|-----------|--------------|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 3-yr Average |
| Year-end Value | \$714,724 | \$788,225 | \$769,099 | \$757,349 |
| Net Return | 4.4% | 0.7% | 0.9% | 2.0% |

OPERATING FUND BREAKDOWN BY TYPE OF INVESTMENT (June 30, 2019)

| | |
|---------------------------|------|
| ■ Cash Deposits (Savings) | 15% |
| ■ Certificates of Deposit | 4% |
| ■ Government Agency | 8% |
| ■ International Bonds | 16% |
| ■ Money Market | 2% |
| ■ Municipal Bonds | 0.2% |
| ■ Treasury Bonds | 7% |
| ■ US Corporate Bonds | 48% |

(may not equal 100% due to rounding)



| ENDOWMENT FUNDS INVESTMENTS | Market Value and Returns | | | |
|-----------------------------|--------------------------|-----------|-----------|--------------|
| | 6/30/2019 | 6/30/2018 | 6/30/2017 | 3-yr Average |
| Pooled Endowments: | | | | |
| Year-end Market Value | \$200,596 | \$195,550 | \$185,657 | \$193,934 |
| Net Return | 3.9% | 8.3% | 9.4% | 7.2% |
| FA Trust Fund: | | | | |
| Year-end Value | \$39,521 | \$38,384 | \$34,997 | \$37,634 |

OPERATING FUND BREAKDOWN BY TYPE OF INVESTMENT (June 30, 2019)

| | |
|-------------------------------------|-----|
| ■ Commodities & Managed Futures | 12% |
| ■ Domestic Equities | 9% |
| ■ Fixed Income | 14% |
| ■ International Equities | 16% |
| ■ Marketable Alternative Strategies | 23% |
| ■ Private Equity | 14% |
| ■ Private Real Estate | 4% |
| ■ Short-Term Securities /Cash | 8% |

