



ANNUAL FINANCIAL REVIEW

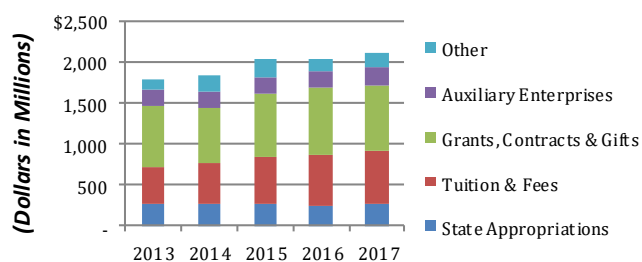
PURPOSE: To assist the Arizona Board of Regents (ABOR) in evaluating the financial position of the University of Arizona as of June 30, 2017. Financial information is one indicator of the University's performance and should be assessed along with other relative nonfinancial indicators in order to evaluate the University overall.

Overall Financial Highlights (Dollars in millions)			
	FY 2016 Actual	FY 2017 Actual	FY 2017 Budget
State Appropriations	\$ 250.9	\$ 267.1	\$ 267.1
Tuition and Fees, net	608.7	653.7	641.3
Grants, Contracts and Gifts	834.3	804.4	773.7
Other Revenue	347.0	384.6	390.1
Total Revenue	\$ 2,040.9	\$ 2,109.8	\$ 2,072.2
Total Expenses	\$ 1,932.3	\$ 1,954.1	\$ 1,986.2
Net Increase	\$ 108.6	\$ 155.7	\$ 86.0

- Total revenue in FY 2017 exceeded budget by \$37.6 million. This is comprised of increases in: grants, contracts and gifts of \$30.7 million and tuition and fees of \$12.4 million offset by a decrease in other revenues of \$5.5 million. The variance in grants, contracts, and gifts is mainly attributed to newly acquired grants mostly in the Health Sciences, as well as the Banner Affiliation Academic Enhancement funds. The variance in tuition and fees is due to the growth in online student enrollment. The change in other revenue is mainly due to sales and services and miscellaneous operating revenues.
- Total expenses fell short of budget by \$32.1 million. The reduction is mainly due to a decrease in expenses for benefits, pension and OPEB liability, other operating and interest savings from refinancing.

Revenue

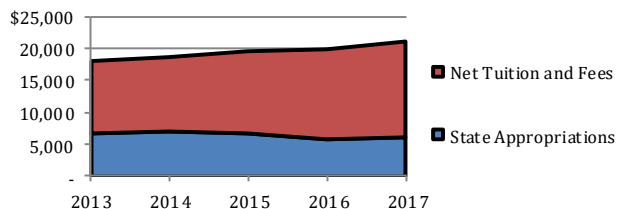
Total Revenue by Source



- Overall, revenues increased 18% from FY 2013 to FY 2017 even though there were reductions in State general fund appropriations of 1% since FY 2013.
- Increases in enrollment and tuition offset the impact of the reduction in State appropriations.
- Other offsets in FY 2017 to the overall decline in State appropriations include increases in sales and services of educational units and grants, contracts, and gifts.

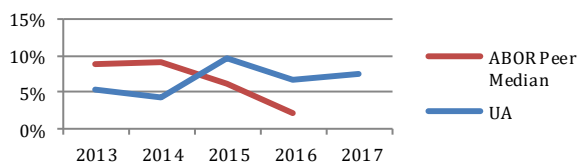
State Appropriations and Net Tuition and Fees per FTE Enrollment

- State Appropriations per student FTE decreased from \$6,673 in FY 2013 to \$6,130 in FY 2017. Net tuition revenue per student FTE increased from \$11,448 in FY 2013 to \$15,003 in FY 2017 due to increases in enrollment and tuition.
- Overall, after combining State appropriations and net tuition revenue, these resources have increased by 16.6% since FY 2013.



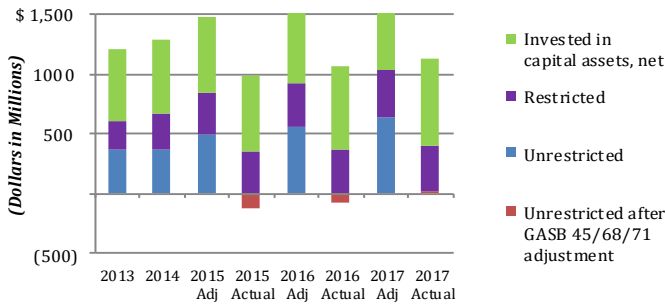
Net Revenue as a Percent of Total Revenues

- A positive net revenue to total revenue ratio is an indicator of the University's ability to retain financial strength through net asset growth, an important institutional goal. The University's ratio has increased by 2.2% since FY 2013.

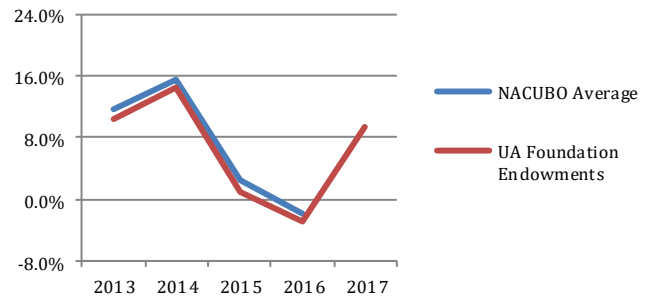


Financial Viability

University Net Position



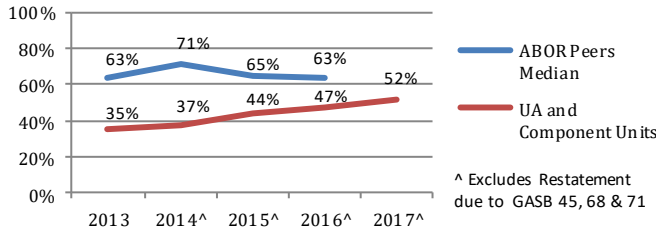
Pooled Endowment Total Return



- The University's net position increased 15.9% from FY 2016 to FY 2017.
- Prior year adjustments are due to pension and OPEB liabilities.

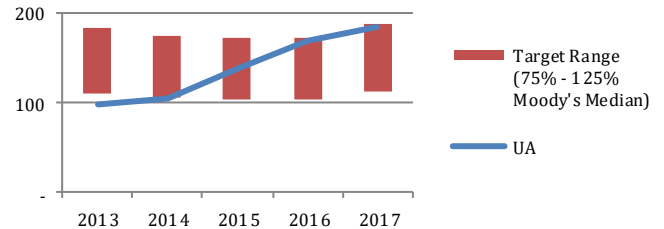
- The UA Foundation's return in FY 2017 rebounded from a -3.0% in FY 2016 to 9.4% in FY 2017 due to improvements in investment conditions. The five-year average return from FY 2013 to FY 2017 is 6.4%.

Expendable Net Position to Total Expenses



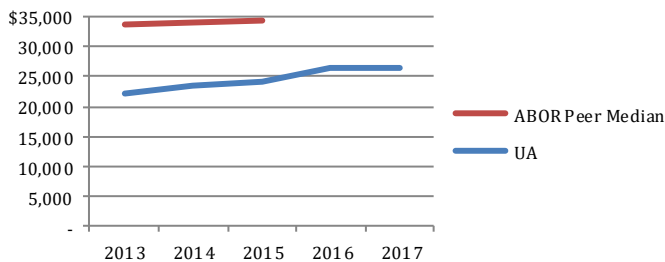
- The ratio of expendable net position to total expenses is a direct measure of an institution's viability and an indirect measure of its liquidity. Although the ratio of expendable net position to total expenses is lower than our peers, the UA's ratio has increased by about 17.0% since FY 2013.

Monthly Days Cash on Hand as of June 30th



- The UA ended FY 2017 with resources to support approximately 184 days of spending as measured by Monthly Days Cash on Hand. The 184 days reflects an increase of 8.2% from FY 2016 mainly due to strategic reserves created for future capital and deferred maintenance projects as well as the shift to Responsibility Centered Management (RCM).

Educational & General Expense per FTE Enrollment



- Educational and General (E&G) expenses include all of the operating expenses of the University, excluding research, auxiliary, and depreciation expenses. UA's E&G expenses per FTE is well below peer institutions' median. Peer data for FY 2016 and FY 2017 is currently not available.

AUXILIARY SUMMARY (Dollars in millions)

	FY 2017 Actuals				
	Inter-collegiate Athletics	Student Programs, including Student Union	Residence Life, including Health and Recreation	Other	Total
Revenue	\$ 76.9	\$ 67.5	\$ 61.4	\$ 91.5	\$ 297.3
Expenses, including net transfers	77.7	66.0	63.0	89.3	296.0
Change	(0.8)	1.5	(1.6)	2.2	1.3
Beginning Balances	6.4	12.7	3.7	10.0	32.8
Ending Balance	\$ 5.6	\$ 14.2	\$ 2.1	\$ 12.2	\$ 34.1

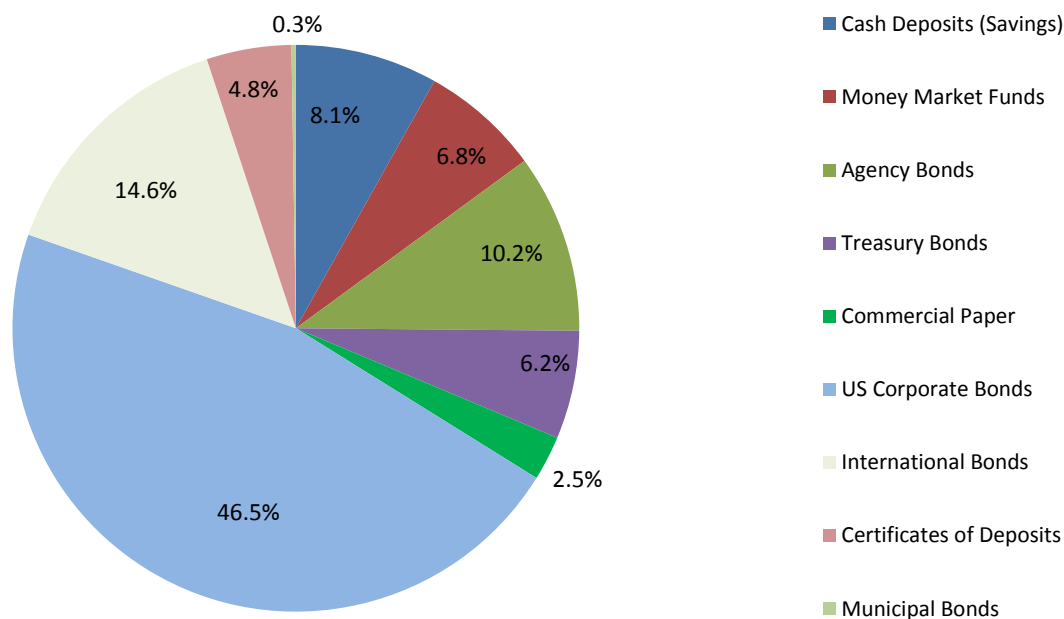
- Activity for Auxiliary enterprises has been driven primarily by Intercollegiate Athletics, Student Programs, Residence Life (including Health and Recreation), and Parking. ICA's decrease of \$0.8 million was primarily due to debt service payments and an increase in funding of construction projects. Residence Life (including Health and Recreation) decreased by \$1.6 million primarily due to a decrease at Campus Recreation of \$1.1 million due to the funding of a construction project.
- In FY 2017, Auxiliary revenues represent 10.0% of total revenue.

**The University of Arizona
 Operating Fund Investments
 June 30, 2017**

	Market Value & Returns					
	(Dollars in Thousands)					
	<u>06/30/2017</u>	<u>06/30/2016</u>	<u>06/30/2015</u>	<u>06/30/2014</u>	<u>06/30/2013</u>	<u>5-Year Average</u>
Year-End Market Value	\$810,624	\$682,028	\$514,334	\$342,082	\$341,260	\$538,066
Total Net Return	0.86%	1.97%	1.07%	0.93%	0.81%	1.13%

Operating Funds Breakdown (by investment) - 06/30/2017:

Cash Deposits (Savings)	8.1%
Money Market Funds	6.8%
Agency Bonds	10.2%
Treasury Bonds	6.2%
Commercial Paper	2.5%
US Corporate Bonds	46.5%
International Bonds	14.6%
Certificates of Deposits	4.8%
Municipal Bonds	0.3%
Total	100%

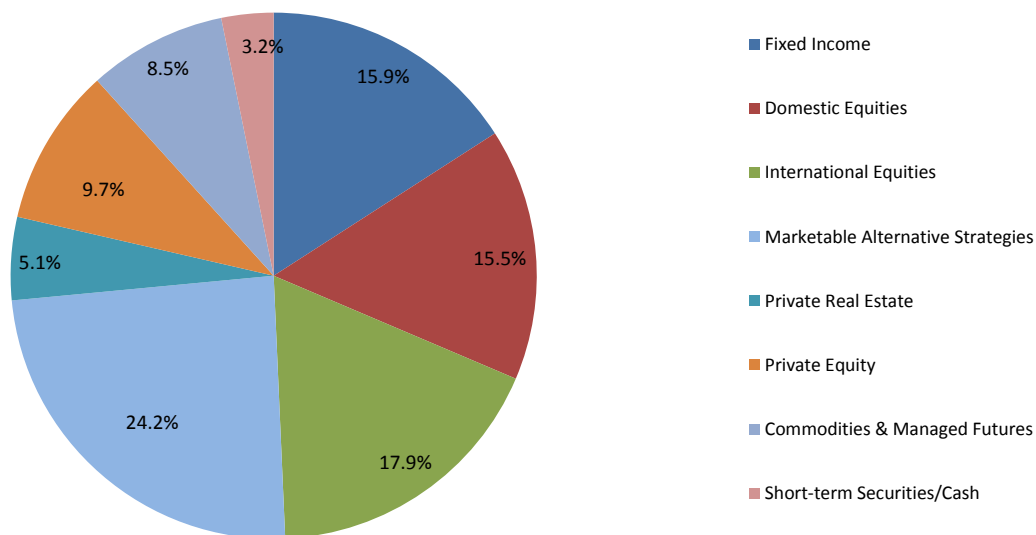


**The University of Arizona
 Endowment Fund Investments
 June 30, 2017**

Market Values & Returns (Dollars in Thousands)						
	<u>06/30/2017</u>	<u>06/30/2016</u>	<u>06/30/2015</u>	<u>06/30/2014</u>	<u>06/30/2013</u>	<u>5-Year Average</u>
Endowments:						
UAF Managed Market Value	\$185,657	\$177,450	\$189,752	\$193,969	\$172,292	\$183,824
UAF Net Return	9.4%	-3.0%	0.8%	14.5%	10.3%	6.4%
Other Endowments Market Value	\$101,750	\$93,987	\$94,627	\$95,280	\$36,741	\$84,477
Other Net Return*	9.7%	1.3%	0.5%	NA	NA	NA
FA Trust Fund (UAF Managed):						
Market Value	\$34,997	\$31,556	\$31,931	\$31,062	\$26,381	\$31,185
NACUBO Equal Weighted Average Returns	N/A	-1.9%	2.4%	15.5%	11.7%	

UAF Endowment Breakdown - 6/30/2017

Fixed Income	15.9%
Domestic Equities	15.5%
International Equities	17.9%
Marketable Alternative Strategies	24.2%
Private Real Estate	5.1%
Private Equity	9.7%
Commodities & Managed Futures	8.5%
Short-term Securities/Cash	3.2%
Total	100%



* Institutional endowments performance - established late FY14
 Trustee held endowment performance is not provided

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