



ANNUAL FINANCIAL REVIEW

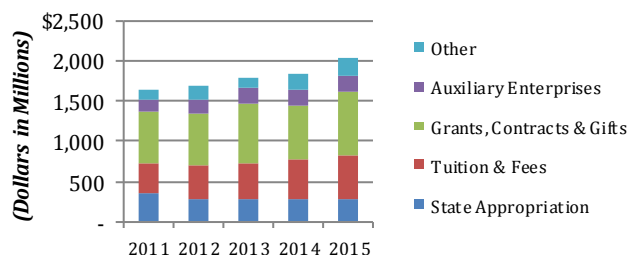
PURPOSE: To assist the Arizona Board of Regents (ABOR) in evaluating the financial position of The University of Arizona (UA) as of June 30, 2015. Financial information is one indicator of the University's performance and should be assessed along with other relative nonfinancial indicators in order to evaluate the University overall.

| Overall Financial Highlights (Dollars in millions) | | | |
|--|-------------------|-------------------|-------------------|
| | FY 2014 Actual | FY 2015 Actual | FY 2015 Budget |
| State Appropriations | \$ 279.3 | \$ 281.7 | \$ 280.1 |
| Tuition and Fees, net | 484.8 | 554.8 | 515.0 |
| Grants, Contracts and Gifts | 683.1 | 773.2 | 728.5 |
| Other Revenue | 385.1 | 432.4 | 343.3 |
| Total Revenue | \$ 1,832.3 | \$ 2,042.1 | \$ 1,866.9 |
| Total Expenses | \$ 1,753.3 | \$ 1,847.9 | \$ 1,822.7 |
| Net Increase (Decrease) | \$ 79.0 | \$ 194.2 | \$ 44.2 |

- Total revenue in FY 2015 exceeded budget by \$175.2 million. This is comprised of increases in: other revenue of \$89.1 million, grants, contracts and gifts of \$44.7 million, and tuition and fees of \$39.8 million. Other revenues increased primarily due to a \$52.9 million gain on sale of land to Banner Health. The increase in grants, contracts, and gifts is mainly attributed to the affiliation agreement with Banner Health in which the University received funds for salaries and Graduate Medical Education Residency Program expenses. Tuition and fees increased due to growth in student enrollment and tuition rate increases.
- Total expenses exceeded budget by \$25.2 million, primarily due to increases in payroll expenses resulting from the affiliation agreement with Banner Health.

Revenue

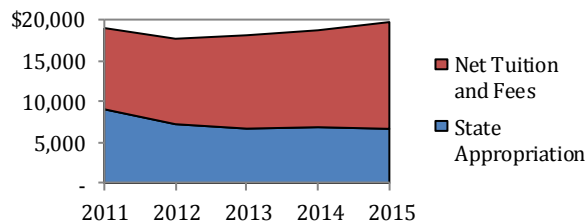
Total Revenue by Source



- Overall, revenues increased 24% from FY 2011 to FY 2015 even though there were reductions in State general fund appropriations of 18% since FY 2011.
- Steady increases in enrollment and tuition offset the impact of the reduction in State appropriations.
- Other offsets in FY 2015 to the overall decline in State appropriations include increases in sales and services of educational units and grants, contracts, and gifts.

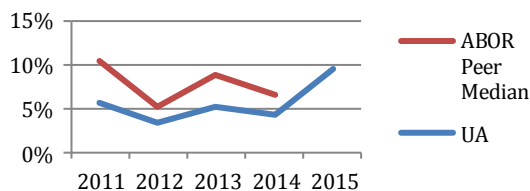
State Appropriations and Net Tuition and Fees per FTE Enrollment

- State appropriations per student FTE decreased from \$9,048 in FY 2011 to \$6,647 in FY 2015. Net tuition revenue per student FTE increased from \$9,959 in FY 2011 to \$13,089 in FY 2015 due to increases in enrollment and tuition.
- Overall, after combining State appropriations and net tuition revenue, these resources have been relatively flat since FY 2011.



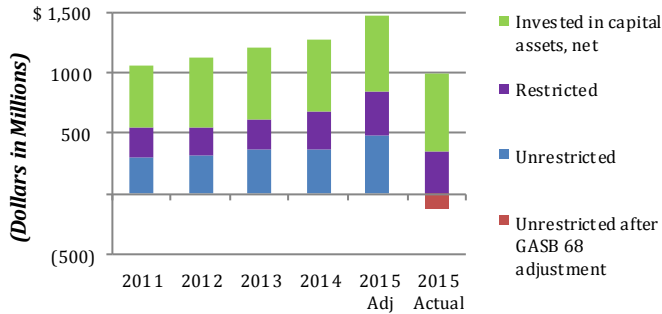
Net Revenue as a Percent of Total Revenues

- 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 3.8% since FY 2011.



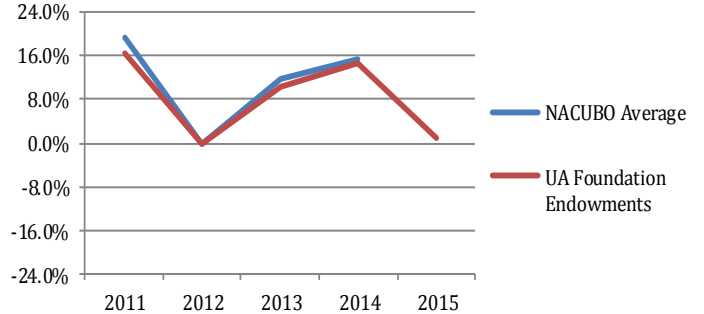
Financial Viability

University Net Position



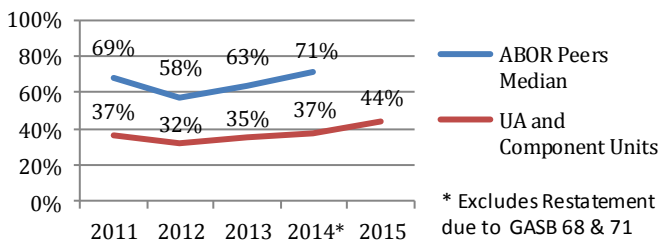
- The University's net position increased 28.7% from FY 2014 to FY 2015.

Pooled Endowment Total Return



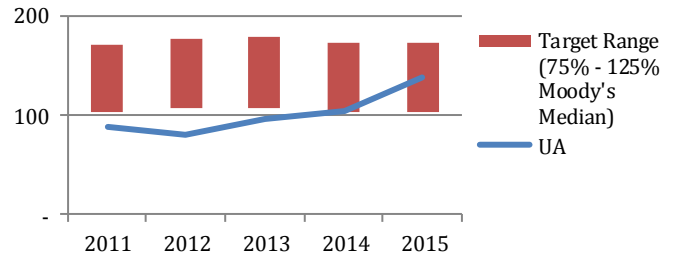
- The UA Foundation's returns took a downturn from a three year high in FY 2014 of 14.5% to 0.8% in FY 2015. The five-year average return from FY 2011 to FY 2015 is 8.3%.

Expendable Net Position to Total Expenses



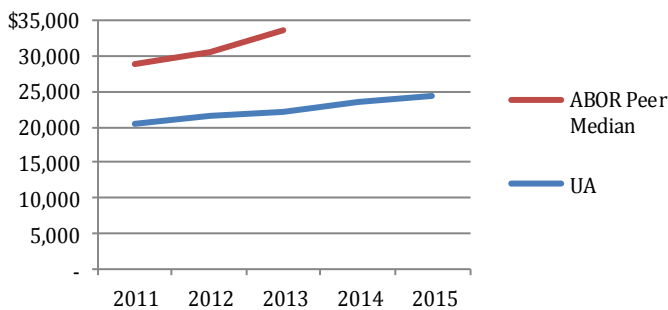
- The ratio of expendable net position to total expenses is a direct measure of an institution's viability and an indirect measure of its liquidity. Although the ratio of expendable net position to total expenses is lower than our peers, the UA's ratio has increased from the prior fiscal year.

Monthly Days Cash on Hand as of June 30th



- The UA ended FY 2015 with resources to support approximately 139 days of spending as measured by Monthly Days Cash on Hand. The 139 days reflects an increase from FY 2014 mainly due to revenue received for the Banner Affiliation Agreement.

Educational & General Expense per FTE Enrollment



- Educational and General (E&G) expenses include all 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 2014 and FY 2015 is currently not available.

AUXILIARY SUMMARY (Dollars in millions)

| | FY 2015 Actuals | | | | |
|-----------------------------------|----------------------------|---|---|--------|---------|
| | Inter-collegiate Athletics | Student Programs, including Student Union | Residence Life, including Health and Recreation | Other | Total |
| Revenue | \$76.3 | \$69.4 | \$58.2 | \$65.8 | \$269.7 |
| Expenses, including net transfers | 72.6 | 68.7 | 57.0 | 69.4 | 267.7 |
| Change | 3.7 | 0.7 | 1.2 | (3.6) | 2.0 |
| Beginning Balances | 5.2 | 11.6 | 2.1 | 9.8 | 28.7 |
| Ending Balance | \$8.9 | \$12.3 | \$3.3 | \$6.2 | \$30.7 |

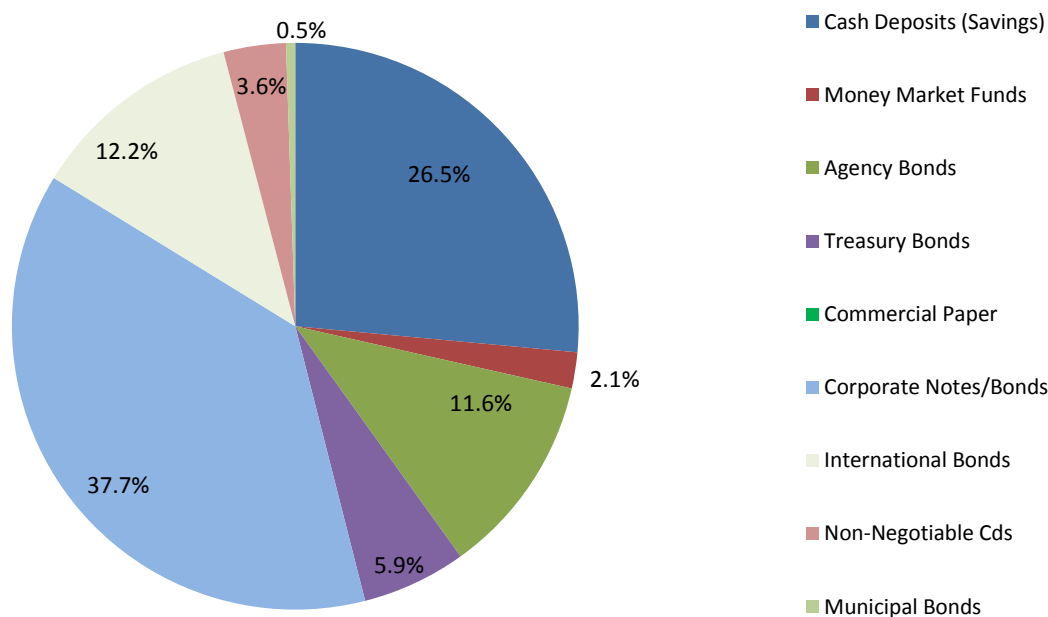
- Activity for Auxiliary enterprises has been driven primarily by Intercollegiate Athletics, student programs, Residence Life, and Parking. In FY 2015, Auxiliary revenues represent 10% of total revenue.

**The University of Arizona
Operating Fund Investments
June 30, 2015**

| Market Value & Returns (Dollars in Thousands) | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|
| | <u>06/30/2015</u> | <u>06/30/2014</u> | <u>06/30/2013</u> | <u>06/30/2012</u> | <u>06/30/2011</u> | <u>5-Year Average</u> |
| Year-End Market Value | \$514,334 | \$342,082 | \$341,260 | \$334,360 | \$246,555 | \$355,718 |
| Total Net Return | 1.07% | 0.93% | 0.81% | 1.4% | 1.0% | 1.0% |

Operating Funds Breakdown (by investment) - 06/30/2015:

| | |
|-------------------------|-------------|
| Cash Deposits (Savings) | 26.5% |
| Money Market Funds | 2.1% |
| Agency Bonds | 11.6% |
| Treasury Bonds | 5.9% |
| Commercial Paper | 0.0% |
| Corporate Notes/Bonds | 37.7% |
| International Bonds | 12.2% |
| Non-Negotiable Cds | 3.6% |
| Municipal Bonds | 0.5% |
| Total | 100% |



**The University of Arizona
Endowment Fund Investments
June 30, 2015**

| Market Values & Returns (Dollars in Thousands) | | | | | | |
|--|-------------------|-------------------|-------------------|-------------------|-------------------|-----------------------|
| | <u>06/30/2015</u> | <u>06/30/2014</u> | <u>06/30/2013</u> | <u>06/30/2012</u> | <u>06/30/2011</u> | <u>5-Year Average</u> |
| Pooled Endowments: | | | | | | |
| Market Value | \$189,752 | \$193,969 | \$172,292 | \$160,423 | \$165,095 | \$176,306 |
| Total Net Return | 0.8% | 14.5% | 10.3% | -0.3% | 16.3% | 8.3% |
| FA Trust Fund (GI Pool): | | | | | | |
| Market Value | \$31,931 | \$31,062 | \$26,381 | \$23,263 | \$22,632 | \$27,054 |
| NACUBO Equal Weighted Average | TBD | 15.5% | 11.7% | -0.3% | 19.2% | |

Endowment Funds Breakdown - 6/30/2015

| | |
|-----------------------------------|----------------------|
| Fixed income | 15.4% |
| Domestic equities | 16.5% |
| International equities | 17.5% |
| Marketable alternative strategies | 24.1% |
| Private equities real estate | 3.7% |
| Private equity (LBOs, etc.) | 9.8% |
| Commodities & Managed futures | 6.2% |
| Short-term securities/ cash | 6.8% |
| Total | <u><u>100.0%</u></u> |

