



ANNUAL FINANCIAL REVIEW

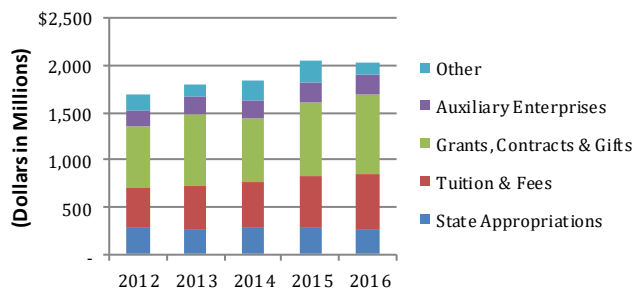
PURPOSE: To assist the Arizona Board of Regents (ABOR) in evaluating the financial position of The University of Arizona as of June 30, 2016. Financial information is one indicator of the University's performance and should be assessed along with other relative nonfinancial indicators in order to evaluate the University overall.

Overall Financial Highlights (Dollars in millions)			
	FY 2015 Actual	FY 2016 Actual	FY 2016 Budget
State Appropriations	\$ 281.7	\$ 250.9	\$ 250.9
Tuition and Fees, net	554.8	608.7	573.9
Grants, Contracts and Gifts	773.2	834.3	690.7
Other Revenue	432.4	347.0	436.2
Total Revenue	\$ 2,042.1	\$ 2,040.9	\$ 1,951.7
Total Expenses	\$ 1,847.9	\$ 1,906.0	\$ 1,883.6
Net Increase (Decrease)	\$ 194.2	\$ 134.9	\$ 68.1

- Total revenue in FY 2016 exceeded budget by \$89.2 million. This is comprised of increases in: grants, contracts and gifts of \$143.6 million and tuition and fees of \$34.8 million offset by a decrease in other revenues of \$89.2 million. The increase in grants, contracts, and gifts is mainly attributed to contract reimbursements from Banner Health for salaries and Graduate Medical Education Residency Program expenses. Tuition and fees increased due to growth in student enrollment and tuition rate increases. Other revenues decreased mainly due to non-recurring revenues received in FY 2015, primarily the gain on the sale of land to Banner Health and a one-time FICA tax refund.
- Total expenses exceeded budget by \$22.4 million, primarily due to increases in payroll expenses relating to clinical personnel from the affiliation agreement with Banner Health.

Revenue

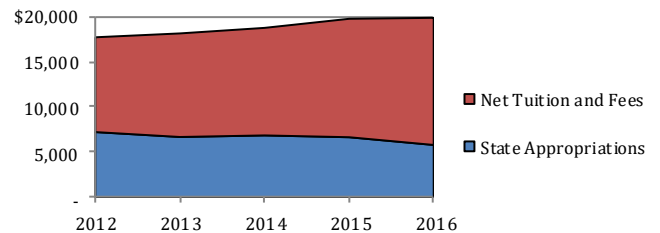
Total Revenue by Source



- Overall, revenues increased 21% from FY 2012 to FY 2016 even though there were reductions in State general fund appropriations of 11% since FY 2012.
- Steady increases in enrollment and tuition offset the impact of the reduction in State appropriations.
- Other offsets in FY 2016 to the overall decline in State appropriations include increases in sales and services of educational units and grants, contracts, and gifts.

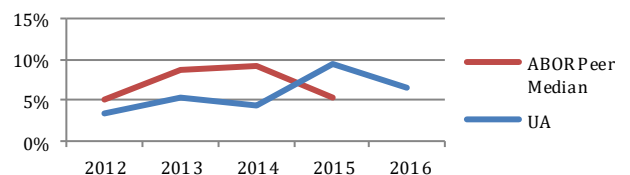
State Appropriations and Net Tuition and Fees per FTE Enrollment

- State Appropriations per student FTE decreased from \$7,216 in FY 2012 to \$5,792 in FY 2016. Net tuition revenue per student FTE increased from \$10,476 in FY 2012 to \$14,051 in FY 2016 due to increases in enrollment and tuition.
- Overall, after combining State appropriations and net tuition revenue, these resources have increased by 12.2% since FY 2012.



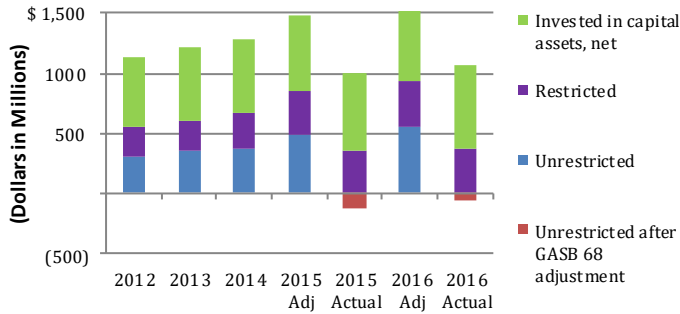
Net Revenue as a Percent of Total Revenues

- 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 3.2% since FY 2012.



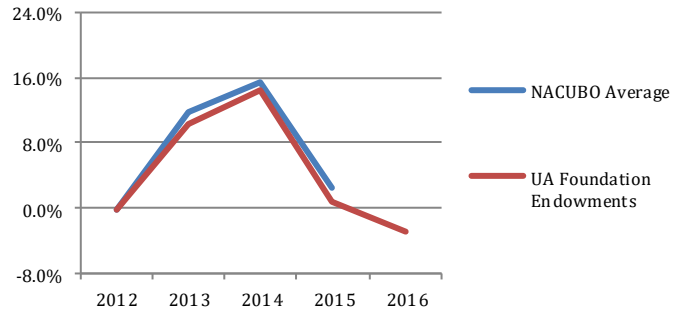
Financial Viability

University Net Position



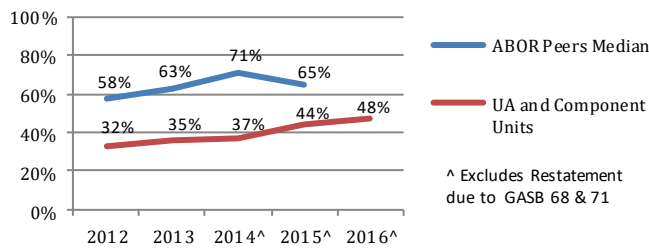
- The University's net position increased 15.5% from FY 2015 to FY 2016.

Pooled Endowment Total Return



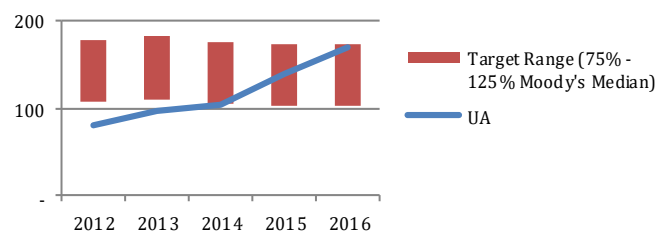
- The UA Foundation's return in FY 2016 was at its lowest since 2012 at -3.0% due to adverse economic conditions. The five-year average return from FY 2012 to FY 2016 is 4.5%.

Expendable Net Position to Total Expenses



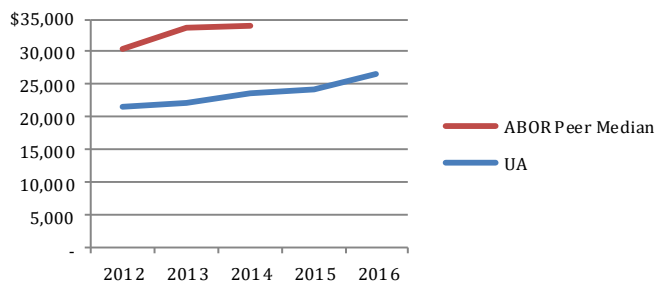
- The ratio of expendable net position to total expenses is a direct measure of an institution's viability and an indirect measure of its liquidity. Although the ratio of expendable net position to total expenses is lower than our peers, the UA's ratio has increased by 15.1% since FY 2012.

Monthly Days Cash on Hand as of June 30th



- The UA ended FY 2016 with resources to support approximately 170 days of spending as measured by Monthly Days Cash on Hand. The 170 days reflects an increase of 22.3% from FY 2015 mainly due to the receipt of the previously deferred State general fund appropriation as well as from guarantee tuition set aside for future expenses and operating surplus.

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 2015 and FY 2016 is currently not available.

AUXILIARY SUMMARY (Dollars in millions)

FY 2016 Actuals					
	Inter-collegiate Athletics	Student Programs, including Student Union	Residence Life, including Health and Recreation	Other	Total
Revenue	\$ 71.5	\$ 68.9	\$ 59.7	\$ 65.0	\$265.1
Expenses, including net transfers	74.0	68.5	59.3	61.2	263.0
Change	(2.5)	0.4	0.4	3.8	2.1
Beginning Balances	8.9	12.3	3.3	6.2	30.7
Ending Balance	\$ 6.4	\$ 12.7	\$ 3.7	\$ 10.0	\$ 32.8

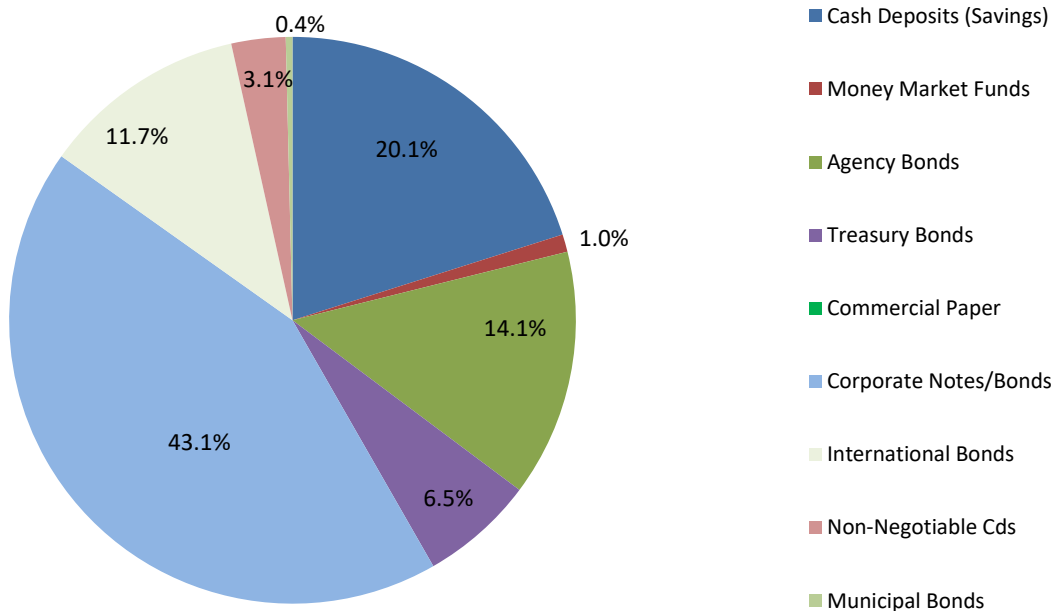
- Activity for Auxiliary enterprises has been driven primarily by Intercollegiate Athletics, Student Programs, Residence Life, and Parking. ICA's decrease of \$2.5 million was primarily due to debt service payments and an increase in funding of construction projects.
- In FY 2016, Auxiliary revenues represent 10.1% of total revenue.

**The University of Arizona
 Operating Fund Investments
 June 30, 2016**

Market Value & Returns (Dollars in Thousands)						
	<u>06/30/2016</u>	<u>06/30/2015</u>	<u>06/30/2014</u>	<u>06/30/2013</u>	<u>06/30/2012</u>	<u>5-Year Average</u>
Year-End Market Value	\$682,028	\$514,334	\$342,082	\$341,260	\$334,360	\$442,813
Total Net Return	1.97%	1.07%	0.93%	0.81%	1.40%	1.24%

Operating Funds Breakdown (by investment) - 06/30/2016:

Cash Deposits (Savings)	20.1%
Money Market Funds	1.0%
Agency Bonds	14.1%
Treasury Bonds	6.5%
Commercial Paper	0.0%
Corporate Notes/Bonds	43.1%
International Bonds	11.7%
Non-Negotiable Cds	3.1%
Municipal Bonds	0.4%
Total	100%



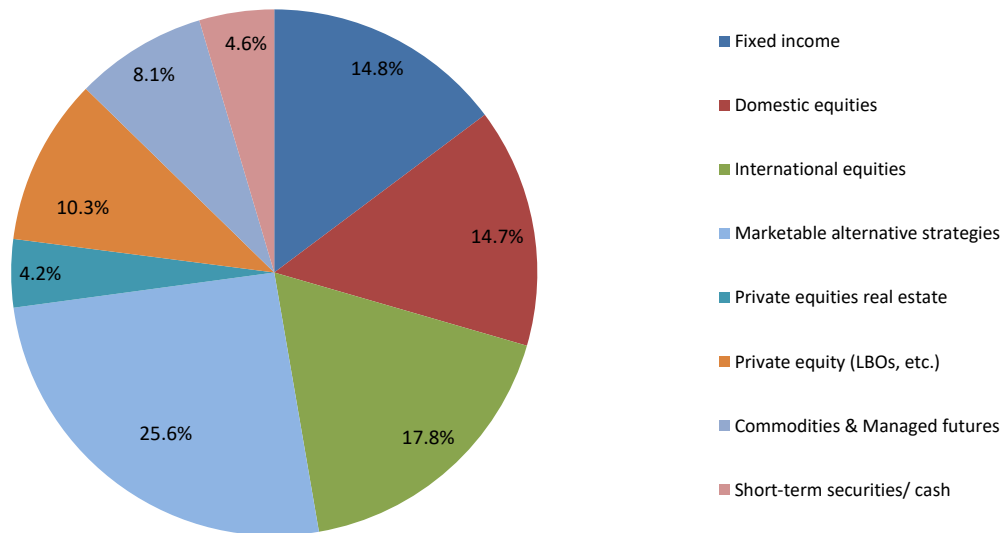
**The University of Arizona
 Endowment Fund Investments
 June 30, 2016**

Market Values & Returns (Dollars in Thousands)						
	<u>06/30/2016</u>	<u>06/30/2015</u>	<u>06/30/2014</u>	<u>06/30/2013</u>	<u>06/30/2012</u>	<u>5-Year Average</u>
Endowments:						
UAF Managed Market Values						
Growth and Income Pool:	\$145,894	\$157,821	\$162,907	\$145,911	\$137,160	\$149,939
Arizona Student Financial Aid Trust:	\$31,556	\$31,931	\$31,062	\$26,381	\$23,263	\$28,839
UAF Net Return:	-3.0%	0.8%	14.5%	10.3%	-0.3%	4.5%
Other Endowments Market Value	\$125,543	\$126,558	\$95,280	\$36,741	\$36,001	\$84,025
* Other Net Return:	1.3%	0.5%	NA	NA	NA	
NACUBO Equal Weighted Average	N/A	2.9%	15.5%	11.7%	-0.3%	

Note: AFAT is invested in the GI Pool being managed by UAF.

Endowment Breakdown - 6/30/2016

Fixed income	14.8%
Domestic equities	14.7%
International equities	17.8%
Marketable alternative strategies	25.6%
Private equities real estate	4.2%
Private equity (LBOs, etc.)	10.3%
Commodities & Managed futures	8.1%
Short-term securities/ cash	4.6%
Total	100%



* Institutional endowments performance - established late FY14
 Trustee held endowment performance is not provided FY12 - FY14