

ANNUAL FINANCIAL REVIEW

UNIVERSITY OF ARIZONA
FY 2018

UNIVERSITY OF ARIZONA FINANCIAL TRENDS

SUMMARY OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

TOTAL REVENUE BY SOURCE

Between FY 2014 and FY 2018:

- UA's revenues grew 16 percent from \$1.83 billion to \$2.12 billion.
- State support decreased 4 percent and state support as a percent of total revenues declined from 15 percent to 13 percent.
- As a percent of total revenues, net tuition and fee revenues increased from 26 percent to 31 percent of total revenues.
- Net tuition and fees increased 35 percent from \$484.8 million to \$653.5 million.
- FTE Enrollment increased by 8 percent from 40,073 in FY 2014 to 43,312 in FY 2018 or about 2 percent per year.

Between FY 2017 and FY 2018:

- There was no growth in net tuition and fees revenues from \$653.7 million in FY 2017 and \$653.5 million in FY 2018. Tuition and Fees were less than budgeted, but were within 1.5 percent of original projection.
- FTE enrollment increased one percent (2% increase resident students, 1% decrease nonresident students)

UNIVERSITY NET POSITION

- UA's net position increased 19 percent between FY 2015 and FY 2018. During that period, GASB adjustments for public pension liability/OPEB ranged from \$614 million in FY 2015 to \$775 million in FY 2018.
- Excluding GASB adjustments, UA's net position increased 41 percent between FY 2014 and FY 2018. Between FY 2017 and FY 2018, UA's net position increased about 2 percent from \$1.785 billion to \$1.814 billion.

EDUCATIONAL AND GENERAL EXPENSES (E&G) AND E&G COMPARED TO PEER INSTITUTIONS

- E&G expenses include all core-operating expenses of the university except for auxiliary units and research expenses. Per ABOR's methodology, which also excludes scholarship expenses and depreciation, UA's E&G expenses per student (which include COM) increased 16 percent from \$23,639 in FY 2014 to \$27,510 FY 2018. Compared to peer institutions, UA's E&G expenses per FTE are below peers ranging from 83 percent to an estimated 80 percent of peer median between FY 2014 and FY 2018.

VIABILITY MEASURES

EXPENDABLE NET POSITION TO TOTAL EXPENSES

- ENP/TE measures financial strength and flexibility by indicating how long UA could function using its expendable resources without relying on additional assets. When looking at the combination of university and component units, a ratio of 40 percent is considered an advisable level. UA including component units exceeds that threshold between FY 2015 and FY 2018, reaching 53 percent in FY 2017 before falling slightly to 50 percent in FY 2018.
- UA excluding component units ranges from 31 percent to 47 percent between FY 2014 and FY 2017, and falls to 43 percent through FY 2018. Peer institutions ranged from 71 percent to 78 percent between FY 2014 and FY 2017.

MONTHLY DAYS CASH ON HAND

- Available and unrestricted liquid cash and investments to total operating expenses is a key metric that Moody's uses to assess credit risk and evaluate credit profiles for higher education institutions. The goal for the universities is to maintain the Monthly Days Cash on Hand ratio within a range of plus or minus 25 percent of Moody's most currently published (FY 2017) median among rated public colleges and universities, which was 149 days. UA's monthly days cash on hand at 172 days in FY 2018 is within the established range of 112 to 186 days.

SPENDABLE CASH & INVESTMENTS TO TOTAL DEBT

- A measure used by rating agencies, SCI/TD is a financial viability measure that measures the university's ability to repay bondholders from cash or wealth that can be accessed over time. The higher the ratio the better the ability to carry and service its total debt.
- Moody's reports that between FY 2014 and FY 2017 All Public Universities median SCI/TD is approximately 1.1. UA is below the median of all public universities, but has improved from 0.55 in FY 2014 to an estimate of 0.78 in FY 2018. This means that UA could cover nearly 80 percent of its outstanding debt utilizing available cash and investment resources. However, the university will continue to pay for its long-term obligations in accordance with current amortizations schedules which tend to carry a term of 30 years.

COMPOSITE FINANCIAL INDEX (CFI)

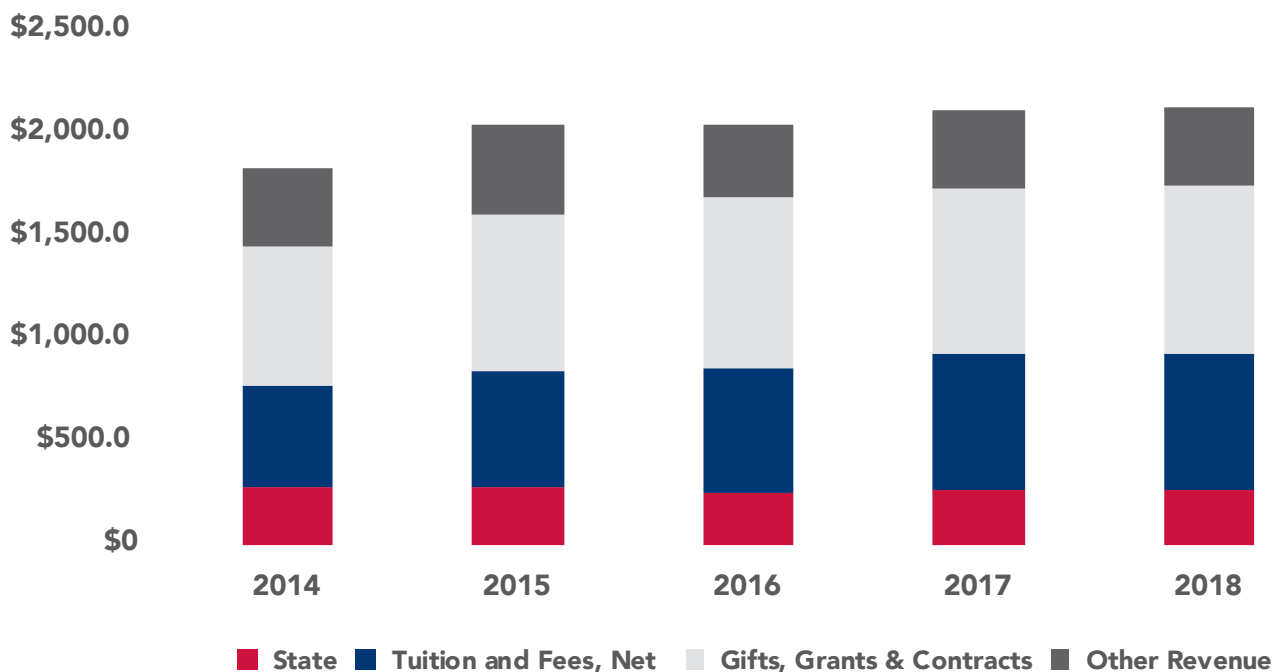
- In order to see a more realistic view of the universities' health, the CFI was adjusted to exclude the effects of pension liability and OPEB. Also shown is the CFI with and without component units. Looking at the CFI without component units, UA CFI increased between FY 2014 and FY 2017, but decreased considerably between FY 17 and FY 18, from 3.22 to 1.73. With component units, the index increased slightly from 2.49 in FY 2014 to 2.53 in FY 2018.

SUMMARY OF REVENUES, EXPENDITURES AND CHANGES IN NET POSITION (dollars in millions)

	FY 2016	FY 2017	FY 2018
State Appropriations	\$250.9	\$267.1	\$269.0
Tuition and Fees, Net	\$608.7	\$653.7	\$653.5
Grants and Gifts	\$834.3	\$804.4	\$816.2
Other Revenue	\$347.0	\$384.6	\$384.4
Total Revenue	\$2,040.9	\$2,109.8	\$2,123.1
Total Expenses	\$1,932.3	\$1,954.1	\$2,060.7
Net Increase (Decrease)	\$108.6	\$155.7	\$62.4

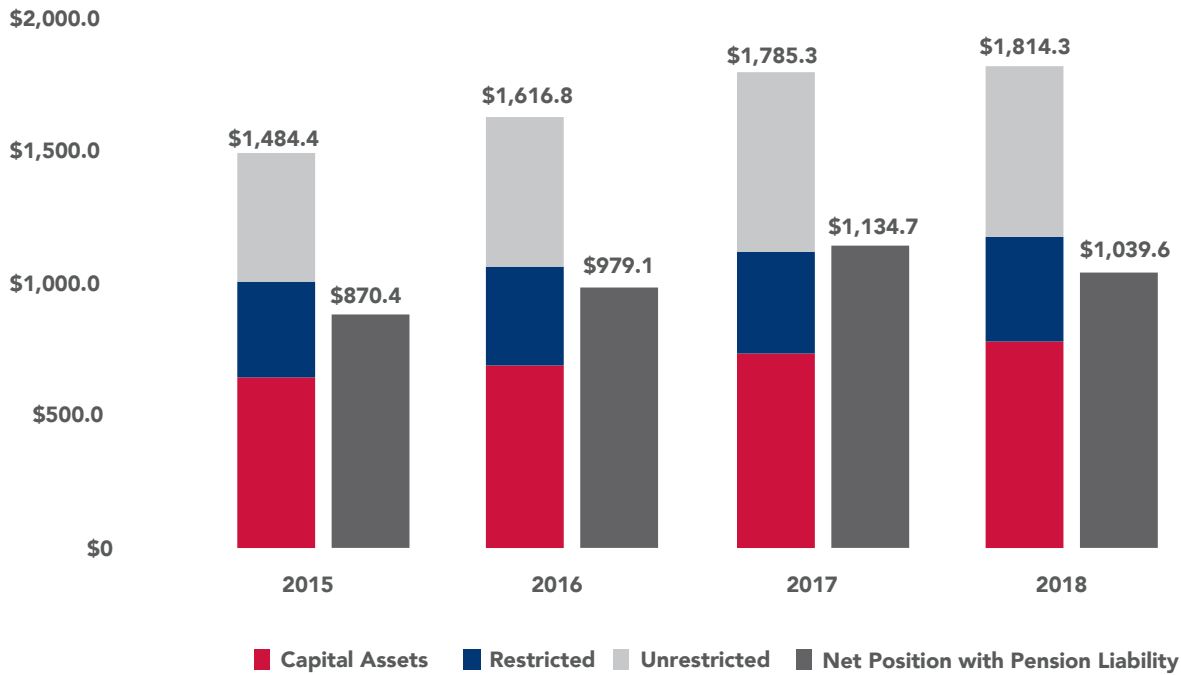
Summary of Revenues, Expenditures and Changes in Net Position reflects accrual based revenues versus expenditures. Revenues include state appropriations, student tuition and fees, grants and gifts and other revenues. Expenditures include operating and non-operating expenditures.

REVENUE BY SOURCE (dollars in millions)



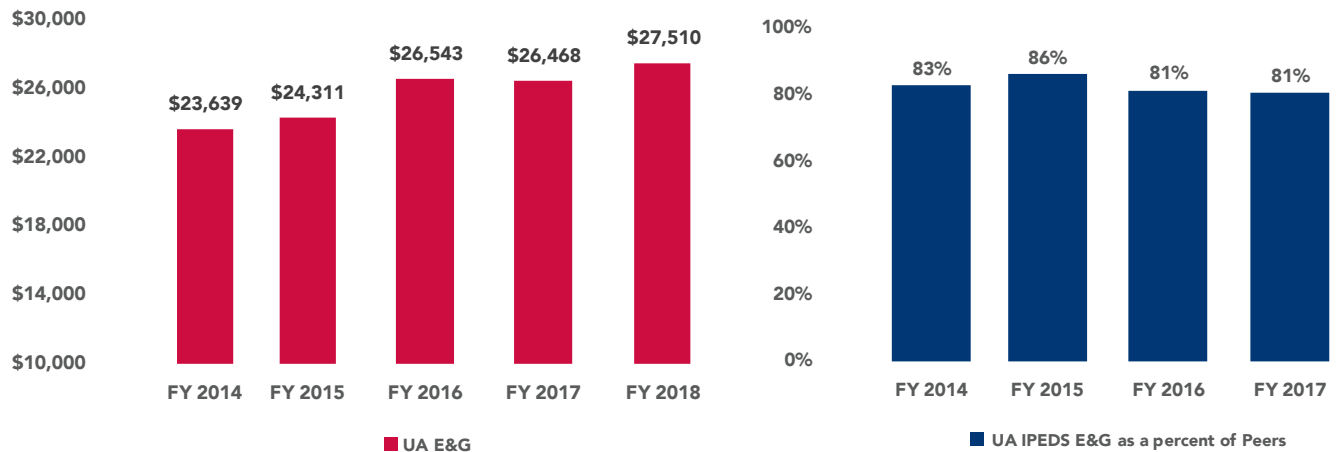
Revenue by Source displays the university's revenue mix. Examples of other revenues are auxiliary, investment income, and sales and services.

NET POSITION (dollars in millions)



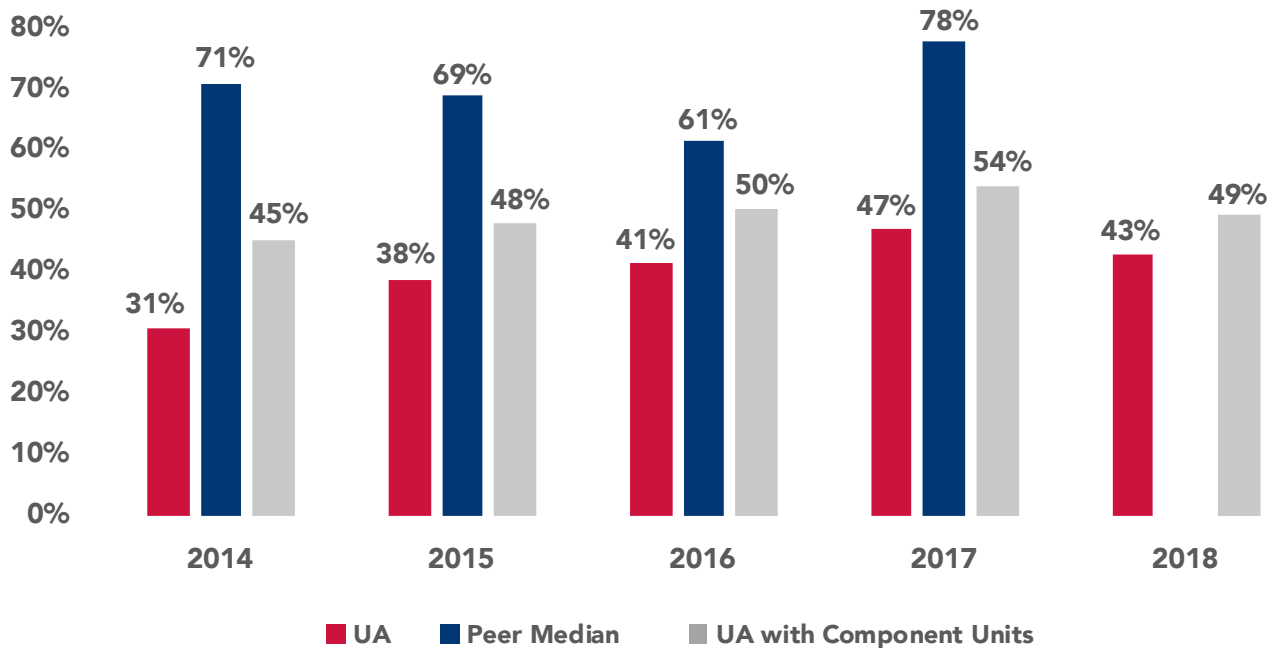
Net Position is the net of all university assets versus liabilities. Net position is shown by category: Capital Assets, Restricted and Unrestricted. The net position with pension liability bars show net position with the GASB standards requiring universities to show pension and other post employment benefit liabilities. These liabilities are then taken against the unrestricted category.

EDUCATIONAL AND GENERAL EXPENSES (E&G) PER FTE



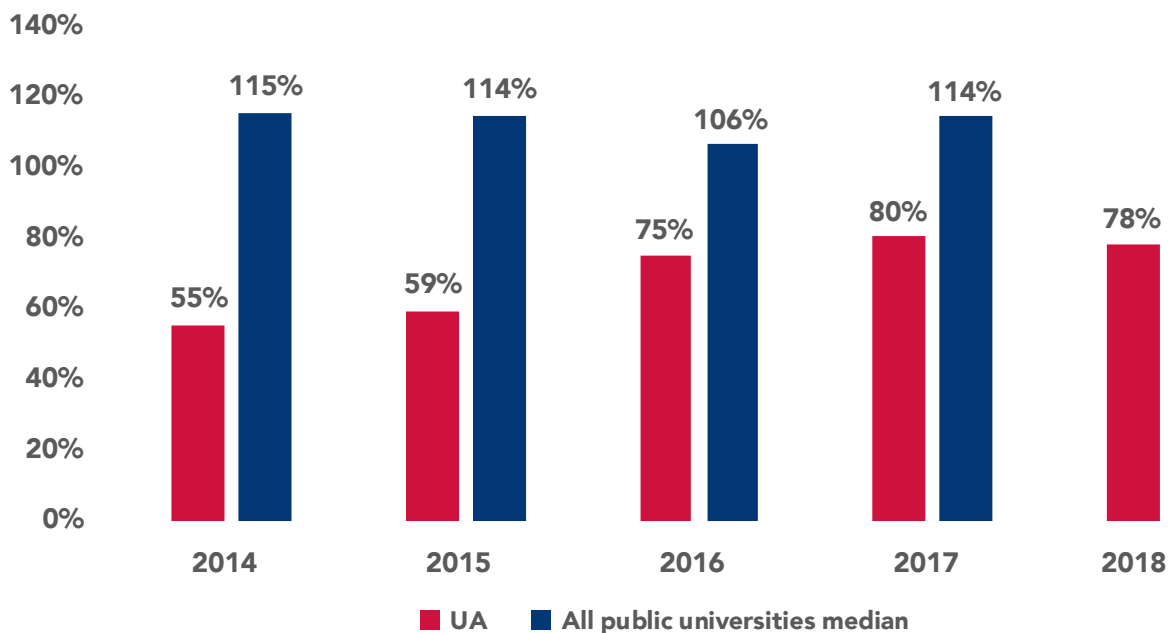
E&G per FTE includes all operating expenses of the university except for auxiliary units, research and scholarship expenses. ABOR also excludes depreciation from the calculation. IPEDS E&G per FTE use the national higher education database. The calculation is slightly different as it includes depreciation and other expenditures, which are excluded in the ABOR calculation.

EXPENDABLE NET POSITION VS. TOTAL EXPENDITURES



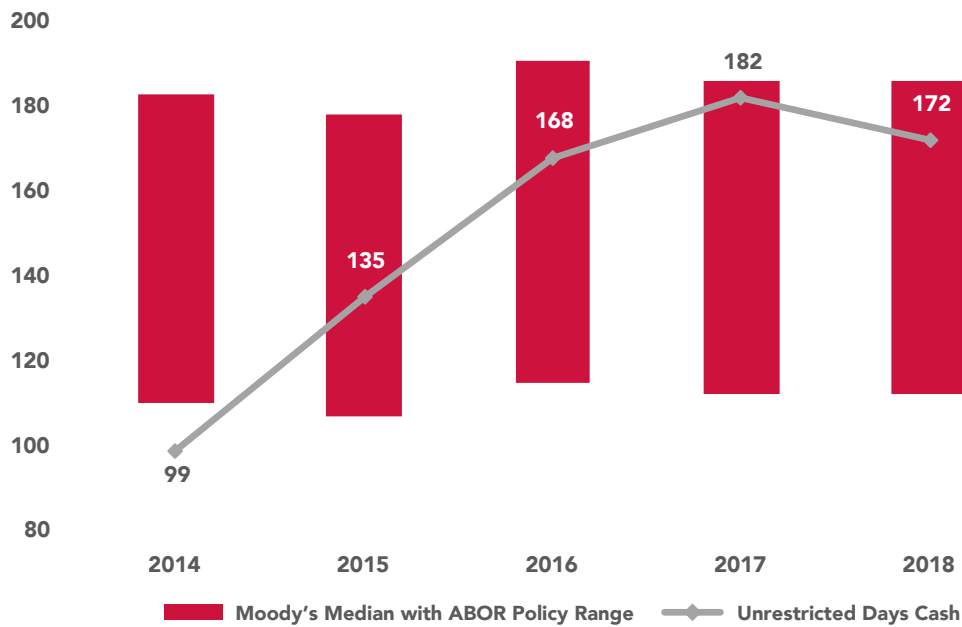
Expendable Net Position vs. Total Expenditures measures financial strength and flexibility by indicating how long a university could function using its expendable resources without relying on additional assets. When looking at the combination of university and component units, a ratio of 40% is considered a advisable level. The calculation excludes the pension liabilities required by GASB 68/45/75.

SPENDABLE CASH AND INVESTMENTS TO TOTAL DEBT



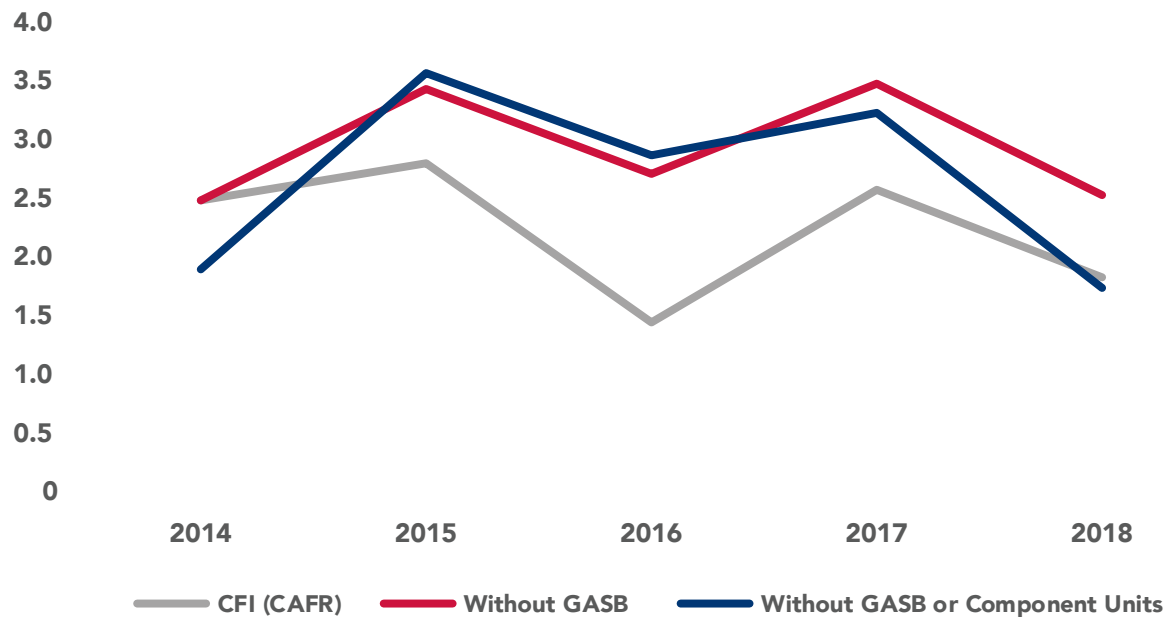
Spendable Cash and Investments to Total Debt measure is used by Moody's to compare cashflow to debt. This measure is compared to the median of all public universities.

MONTHLY DAYS CASH ON HAND



Monthly Days Cash on Hand measures how long the university is able to operate using unrestricted cash and investments from both operating and long-term accounts that can be liquidated and spent within 30 days. The Board established a liquidity guideline that states universities should have between 75 percent and 125 percent of the Moody's median of public universities.

COMPOSITE FINANCIAL INDEX



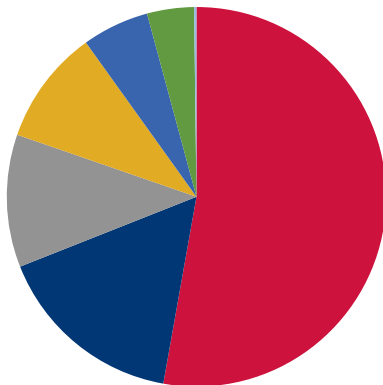
The Composite Financial Index (CFI) combines several ratios to give an overall picture of the financial health of the institution. The CFI is shown three ways:

1. CFI (CAFR): the published CFI, which includes both the university and component units.
2. Without GASB: the CFI excluding the impacts from pension liabilities.
3. Without GASB or Component Units: the CFI is the university only, excluding both the impacts from pension liabilities and component units. The Index is measured on a scale of 0-10. Institutions with a score less than 3 are considered financially stressed.

OPERATING FUND INVESTMENTS (dollars in thousands)

	2016	2017	2018	3-Year Average
Year-End Market Value	\$682,028	\$810,624	\$813,429	\$768,694
Total Net Return	2.1%	0.9%	0.7%	1.2%

OPERATING FUNDS BREAKDOWN (BY INVESTMENT)

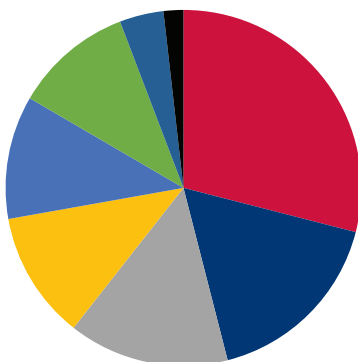


- US Corporate Bonds: 52.8%
- International Bonds: 16.2%
- Cash Deposits (Savings): 11.3%
- Government Agency: 9.8%
- Treasury Bonds: 5.7%
- Certificates of Deposits: 4.0%
- Municipal Bonds: 0.2%

ENDOWMENT FUND INVESTMENTS (dollars in thousands)

	2016	2017	2018	3-Year Average
UA Foundation Managed				
Year-End Market Value	\$177,450	\$185,657	\$195,550	\$186,219
Total Net Return	-3.0%	9.4%	8.3%	4.9%
Other Endowments				
Year-End Market Value	\$93,987	\$101,750	\$108,448	\$101,395
Total Net Return	1.3%	9.7%	7.8%	6.3%
Financial Aid Trust Fund				
Year-End Market Value	\$31,556	\$34,997	\$38,384	\$34,979

ENDOWMENT FUNDS BREAKDOWN BY ASSET ALLOCATION



- Marketable Alternative Strategies: 29.0%
- International Equities: 17.0%
- Fixed Income: 14.6%
- Commodities & Managed Futures: 11.6%
- Private Equity: 11.2%
- Domestic Equities: 10.8%
- Private Real Estate: 4.0%
- Short-term Securities/Cash: 1.8%