

ANNUAL FINANCIAL REVIEW

ARIZONA STATE UNIVERSITY
FY 2018

ARIZONA STATE UNIVERSITY FINANCIAL TRENDS

SUMMARY OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

TOTAL REVENUE BY SOURCE

Between FY 2014 and FY 2018:

- ASU's revenues grew 32 percent from \$1.96 billion to \$2.58 billion.
- State support decreased 3 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 46 percent to 51 percent of total revenues.
- Net tuition and fees increased 48 percent from \$896.9 million to \$1.32 billion.
- FTE Enrollment increased by 28 percent from 76,376 to 97,950 in FY 2018 or about 6 percent per year.

Between FY 2017 and FY 2018:

- Net tuition and fees increased 6 percent from \$1.25 billion to \$1.32 billion.
- FTE enrollment increased 4 percent (3% increase resident students, 5.4% increase nonresident students)

UNIVERSITY NET POSITION

- ASU's net position increased 20 percent between FY 2015 and FY 2018. During that period, GASB adjustments for public pension liability/OPEB ranged from \$473.8 million in FY 2015 to \$664.2 million in FY 2018.
- Excluding GASB adjustments, ASU's net position increased 35 percent between FY 2014 and FY 2018. Between FY 2017 and FY 2018, ASU's net position increases 3.4 percent.

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, ASU's E&G expenses per student increased 7 percent from \$15,591 in FY 2014 to \$16,672 in FY 2018. Compared to peer institutions, ASU's E&G expenses per FTE are significantly below peers ranging from 61 percent to an estimated 64 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 ASU 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. ASU including component units exceeds the advisable level between FY 2014 and 2018, reaching 54 percent in FY 2017 before falling slightly in FY 2018 to 49 percent.
- ASU excluding component units ranges from 36 percent to 41 percent between FY 2014 and FY 2017, and fell to 36 percent in FY 2018. ASU's peer institutions ranged from 45 percent to 51 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. ASU's monthly days cash on hand at 142 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. ASU is below the median, but has improved from 0.62 in FY 2014 to an estimate of 0.79 in FY 2018. This means that ASU 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)

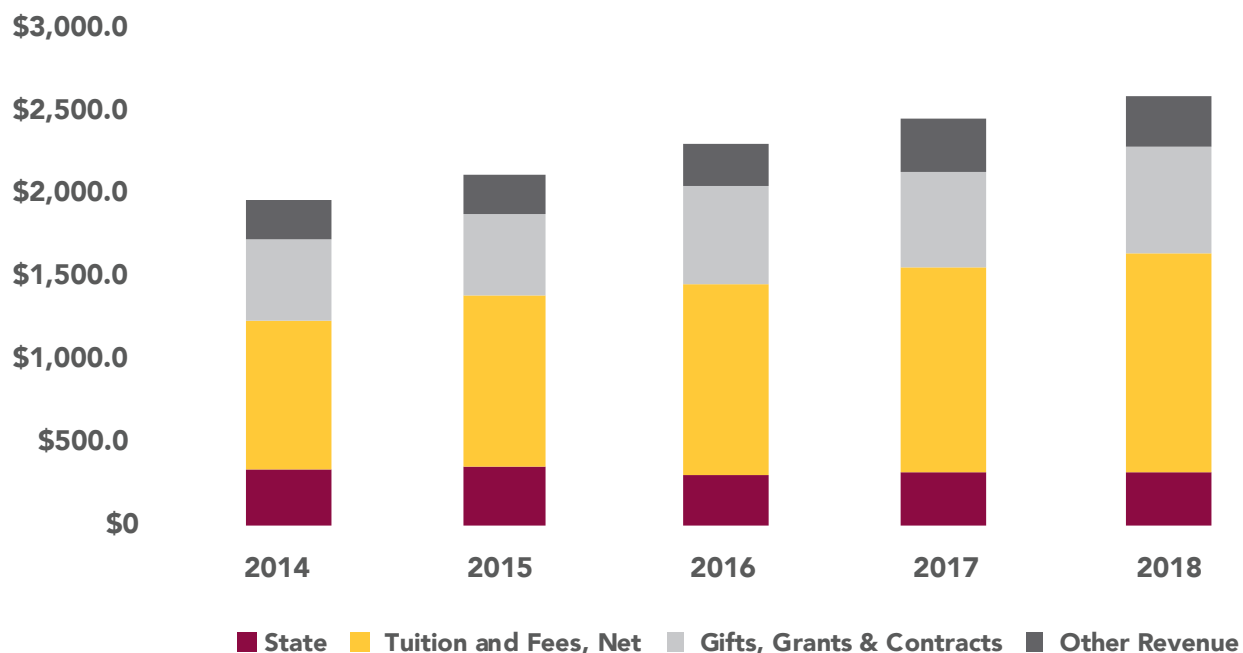
- In order to see a more realistic view of the universities' health, the CFI was adjusted to exclude the effects of pension liability and OPEB. Also shown is the CFI with and without component units. Looking at the CFI without component units, ASU's CFI decreased between FY 2014 and FY 2017, with a considerable decrease between FY 2017 and FY 2018, from 2.58 to 1.81. With component units, the index decreased moderately from 2.79 in FY 2014 to 2.39 in FY 2018.

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

	FY 2016	FY 2017	FY 2018
State Appropriations	\$292.8	\$308.1	\$320.3
Tuition and Fees, Net	\$1,157.5	\$1,250.8	\$1,323.3
Grants and Gifts	\$584.5	\$568.8	\$638.9
Other Revenue	\$254.1	\$314.2	\$301.3
Total Revenue	\$2,289.0	\$2,441.8	\$2,583.8
Total Expenses	\$2,180.5	\$2,342.5	\$2,520.7
Net Increase (Decrease)	\$108.5	\$99.4	\$63.1

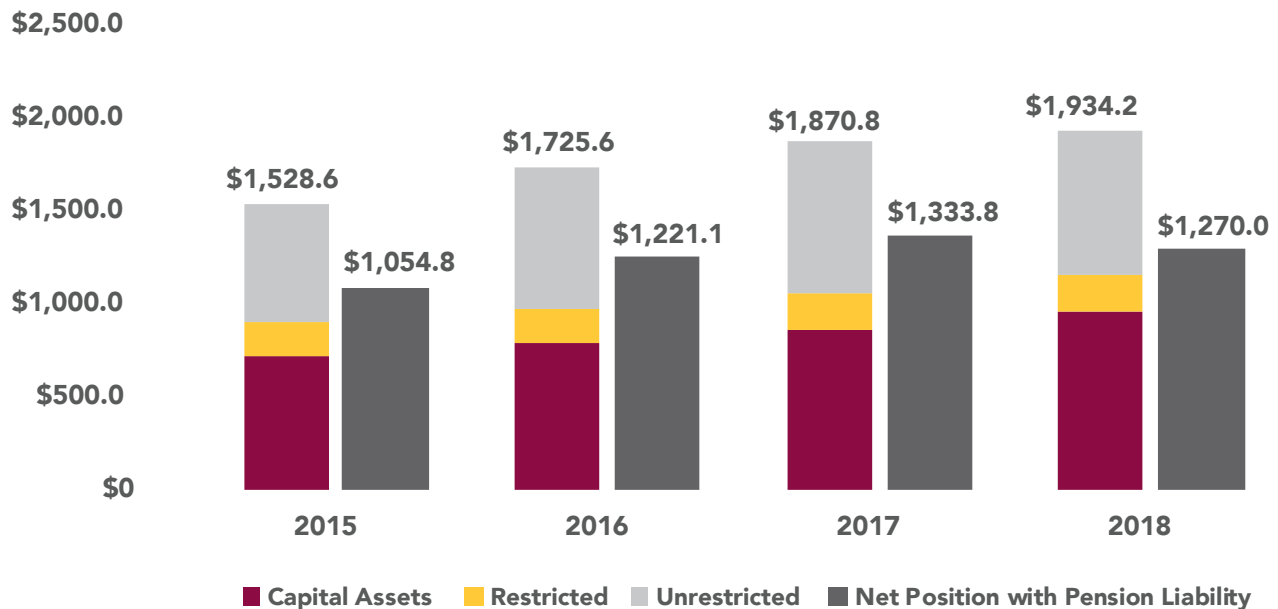
Summary of Revenues, Expenditures and Changes in Net Position reflects accrual based revenues versus expenditures. Revenues include state appropriations, student tuition and fees, grants and gifts and other revenues. Expenditures include operating and non-operating expenditures.

REVENUE BY SOURCE (dollars in millions)



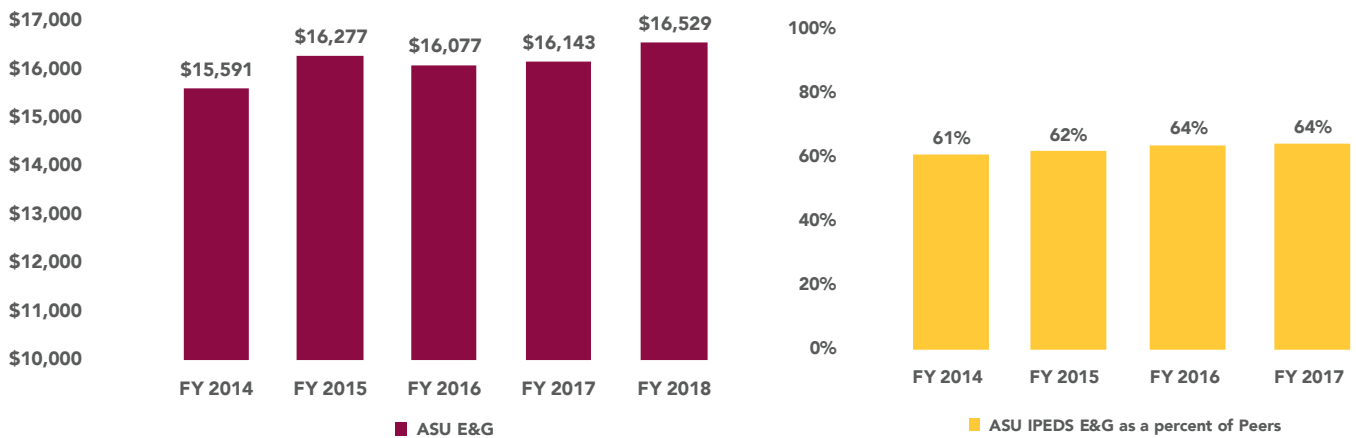
Revenue by Source displays the university's revenue mix. Examples of other revenues are auxiliary, investment income, and sales and services.

NET POSITION (dollars in millions)



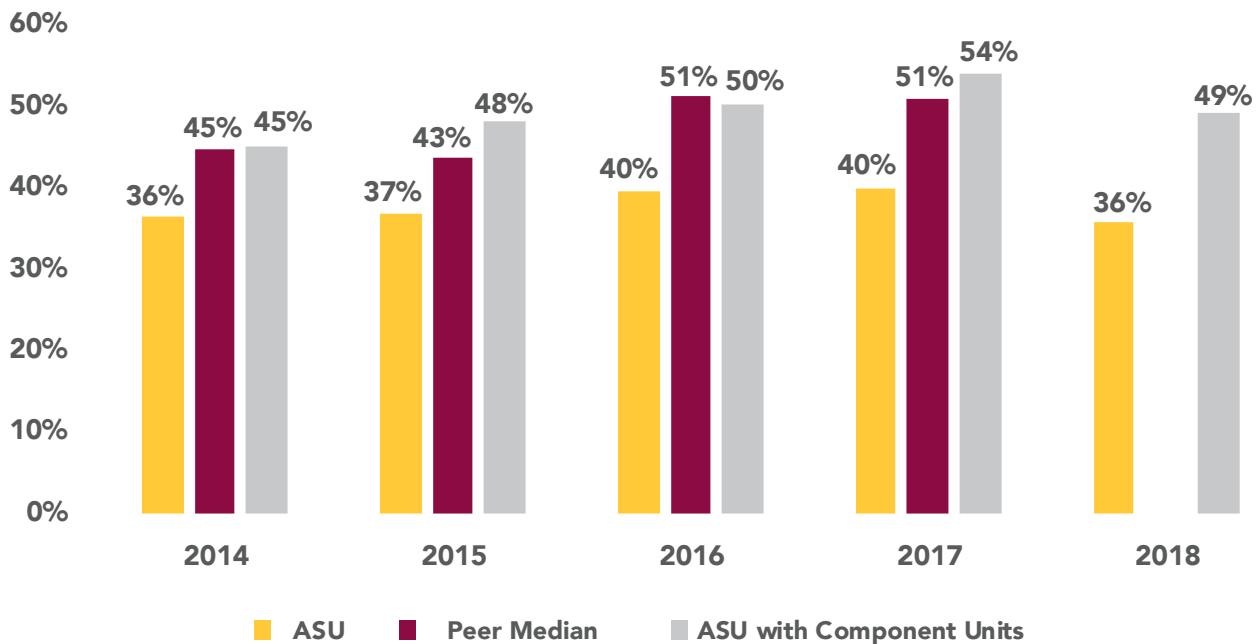
Net Position is the net of all university assets versus liabilities. Net position is shown by category: Capital Assets, Restricted and Unrestricted. The net position with pension liability bars show net position with the GASB standards requiring universities to show pension and other post employment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

EDUCATIONAL AND GENERAL EXPENSES (E&G) PER FTE



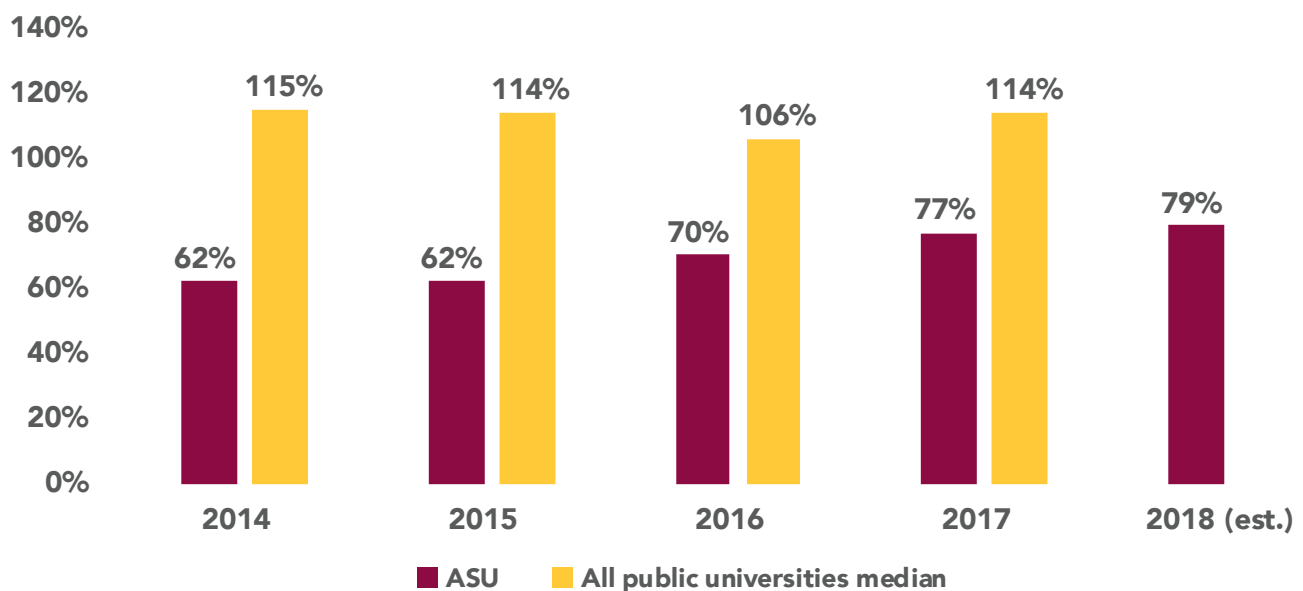
E&G per FTE includes all operating expenses of the university except for auxiliary units, research and scholarship expenses. ABOR also excludes depreciation from the calculation. IPEDS E&G per FTE use the national higher education database. The calculation is slightly different as it includes depreciation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

EXPENDABLE NET POSITION VS. TOTAL EXPENDITURES



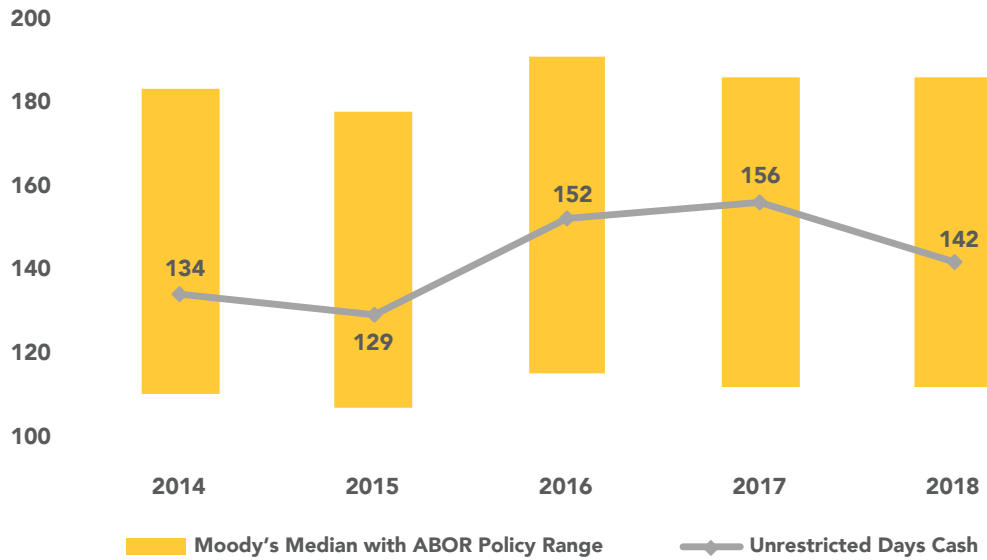
Expendable Net Position vs. Total Expenditures measures financial strength and flexibility by indicating how long a university could function using its expendable resources without relying on additional assets. When looking at the combination of university and component units, a ratio of 40% is considered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

SPENDABLE CASH AND INVESTMENTS TO TOTAL DEBT



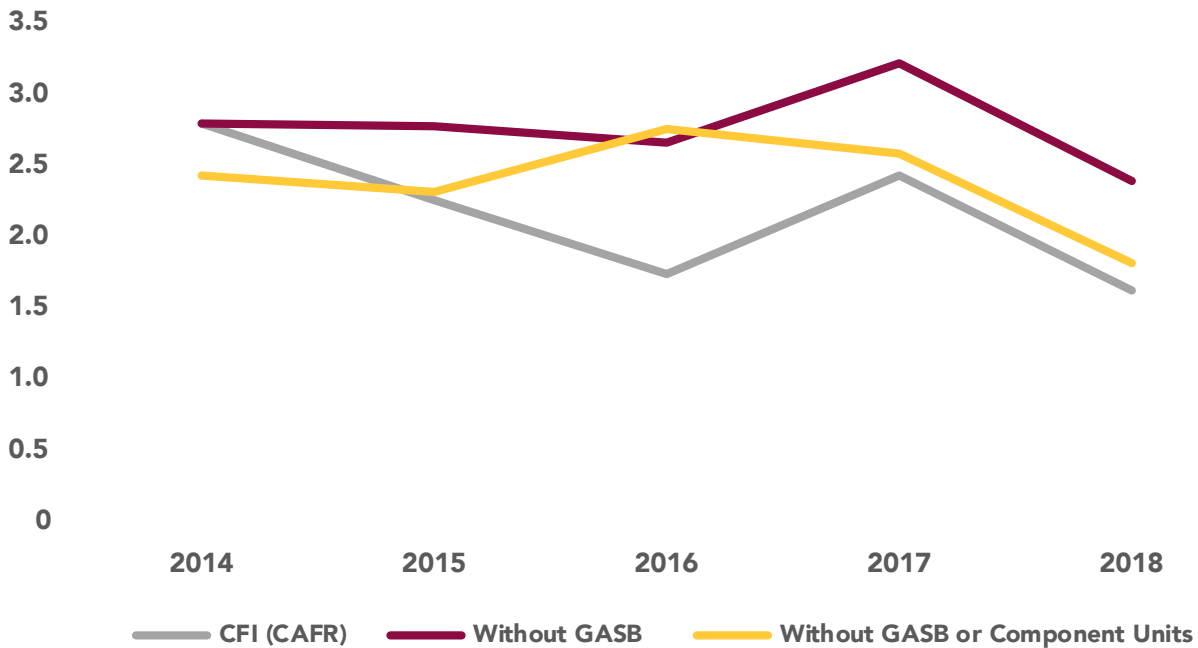
Spendable Cash and Investments to Total Debt measure is used by Moody's to compare cashflow to debt. This measure is compared to the median of all public universities.

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



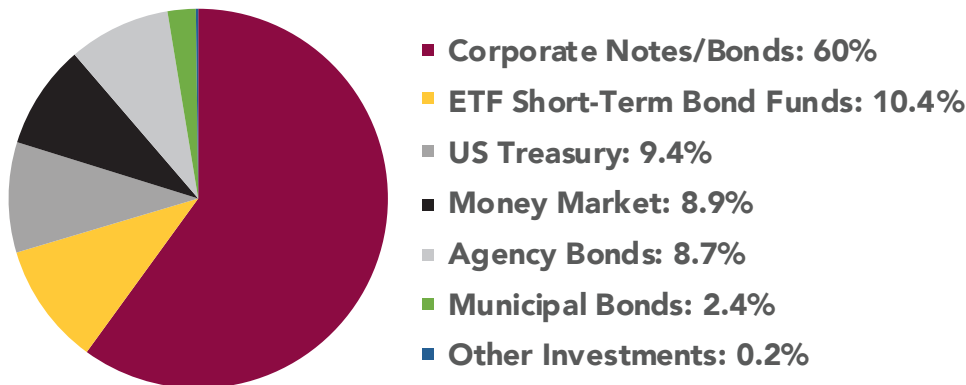
The Composite Financial Index (CFI) combines several ratios to give an overall picture of the financial health of the institution. The CFI is shown three ways:

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	\$828,622	\$907,034	\$888,904	\$874,853
Total Net Return	1.68%	0.59%	0.24%	0.8%

OPERATING FUNDS BREAKDOWN (BY INVESTMENT)



ENDOWMENT FUND INVESTMENTS (dollars in thousands)

	2016	2017	2018	3-Year Average
Pooled Endowments				
Year-End Market Value	\$66,129	\$74,351	\$75,866	\$72,115
Total Net Return	-4.4%	12.8%	6.9%	5.1%
Other Endowments				
Year-End Market Value	\$47,530	\$55,767	\$61,506	\$54,934
Total Net Return	-4.4%	12.8%	6.9%	5.1%

ENDOWMENT FUNDS BREAKDOWN BY ASSET ALLOCATION

