

ANNUAL FINANCIAL REVIEW

NORTHERN ARIZONA UNIVERSITY
FY 2018

NORTHERN ARIZONA UNIVERSITY FINANCIAL TRENDS

SUMMARY OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

TOTAL REVENUE BY SOURCE

Between FY 2014 and FY 2018:

- NAU's revenues grew 20 percent from \$490.3 million to \$590.3 million.
- State support decreased 6 percent and state support as a percent of total revenues declined from 22 percent to 17 percent.
- As a percent of total revenues, net tuition and fee revenues increased from 39 percent to 41 percent of total revenues
- Net tuition and fees increased 25 percent from \$188.8 million to \$236.8 million.
- FTE Enrollment increased by 19 percent from 24,816 in FY 2014 to 29,524 in FY 2018 or about 4.5 percent per year.

Between FY 2017 and FY 2018:

- Net tuition and fees revenues decreased slightly from \$237.9 million in FY 2017 to \$236.8 million in FY 2018. Tuition and Fees revenues were less than budgeted at four percent less than original projection
- FTE enrollment increased approximately three percent (3percent increase resident students, 3percent increase nonresident students).

UNIVERSITY NET POSITION

- NAU net position decreased 17 percent between FY 2015 and FY 2018. FY 2015 was the first year of new accounting standards for public pension plans and postemployment benefits (OPEB), which effect the net position. Public pension liability/OPEB ranged from \$163.4 million in FY 2015 to \$234.3 million in FY 2018.
- Excluding GASB adjustments, NAU's net position increased 8.5 percent between FY 2014 and FY 2018. Between FY 2017 and FY 2018, NAU net position increased only slightly from \$474 million to \$477 million.

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, NAU's E&G expenses per student decreased four percent from \$13,963 in FY 2014 to \$13,336. Compared to peer institutions, NAU's E&G expenses per FTE are below peers ranging from 57 percent to an estimated 56 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 NAU 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. NAU including component units is consistently above the threshold between FY 2014 and FY 2018, reaching 53 percent in FY 2018.
- NAU excluding component units was at 38 percent in both FY 2014 and FY 2018, but dipped to around 31 percent between those years. NAU's peer institutions ranged from 30 percent to 40 percent between FY 2014 and FY 2017.

MONTHLY DAYS CASH ON HAND

- Cash reserves is one factor 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 median among rated public colleges and universities. At 161 days in FY 2018, NAU's unrestricted monthly days cash on hand 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 essentially measures cash flow to debt. It is a debt capacity ratio and examines the ability to repay bondholders from cash or wealth 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. NAU is below the median of all public universities, but has improved from 0.40 in FY 2014 to an estimate of .0.58 in FY 2018. This means that NAU could cover about 60 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)

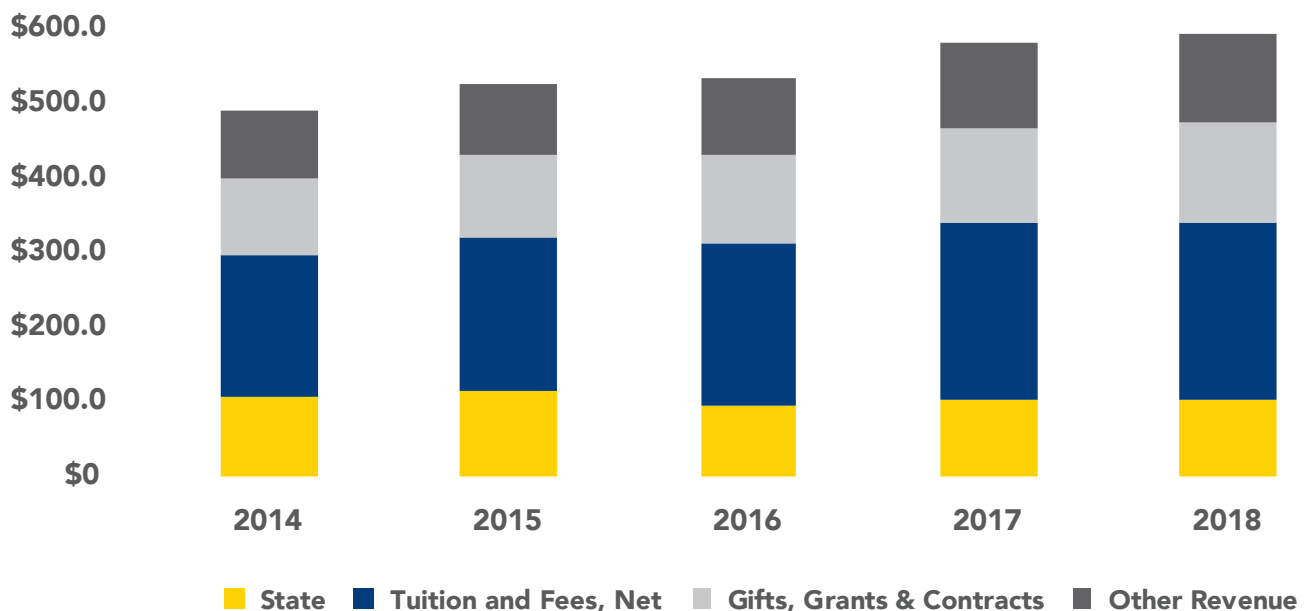
- In order to see a more realistic view of the universities' health, the CFI was adjusted to exclude the effects of pension liability and OPEB. Also shown is the CFI with and without component units. Looking at the CFI without component units, NAU's CFI has varied between 1.30 in FY 2014 to 1.55 in FY 2017, but decreased between FY 2017 and FY 2018, from 1.55 to 1.24. With component units, the index increased slightly to 1.96 in FY 2018.

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

	FY 2016	FY 2017	FY 2018
State Appropriations	\$94.6	\$100.1	\$99.7
Tuition and Fees, Net	\$217.0	\$237.9	\$236.8
Grants and Gifts	\$119.3	\$126.5	\$134.4
Other Revenue	\$100.7	\$113.6	\$119.4
Total Revenue	\$531.7	\$578.1	\$590.3
Total Expenses	\$540.3	\$572.9	\$584.9
Net Increase (Decrease)	(\$8.7)	\$5.2	\$5.4

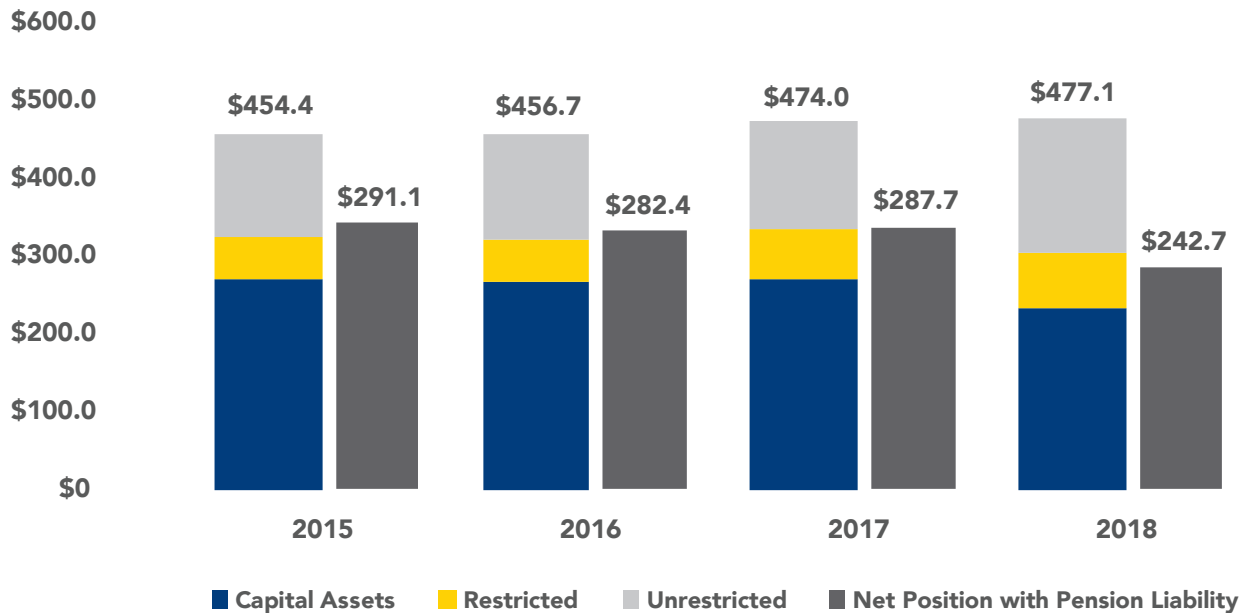
Summary of Revenues, Expenditures and Changes in Net Position reflects accrual based revenues versus expenditures. Revenues include state appropriations, student tuition and fees, grants and gifts and other revenues. Expenditures include operating and non-operating expenditures.

REVENUE BY SOURCE (dollars in millions)



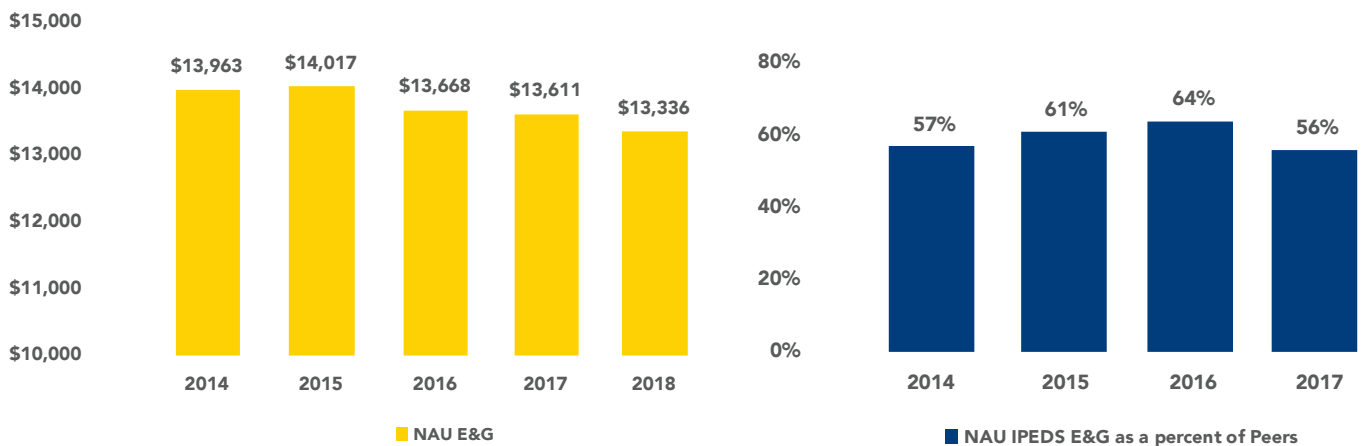
Revenue by Source displays the university's revenue mix. Examples of other revenues are auxiliary, investment income, and sales and services.

NET POSITION (dollars in millions)



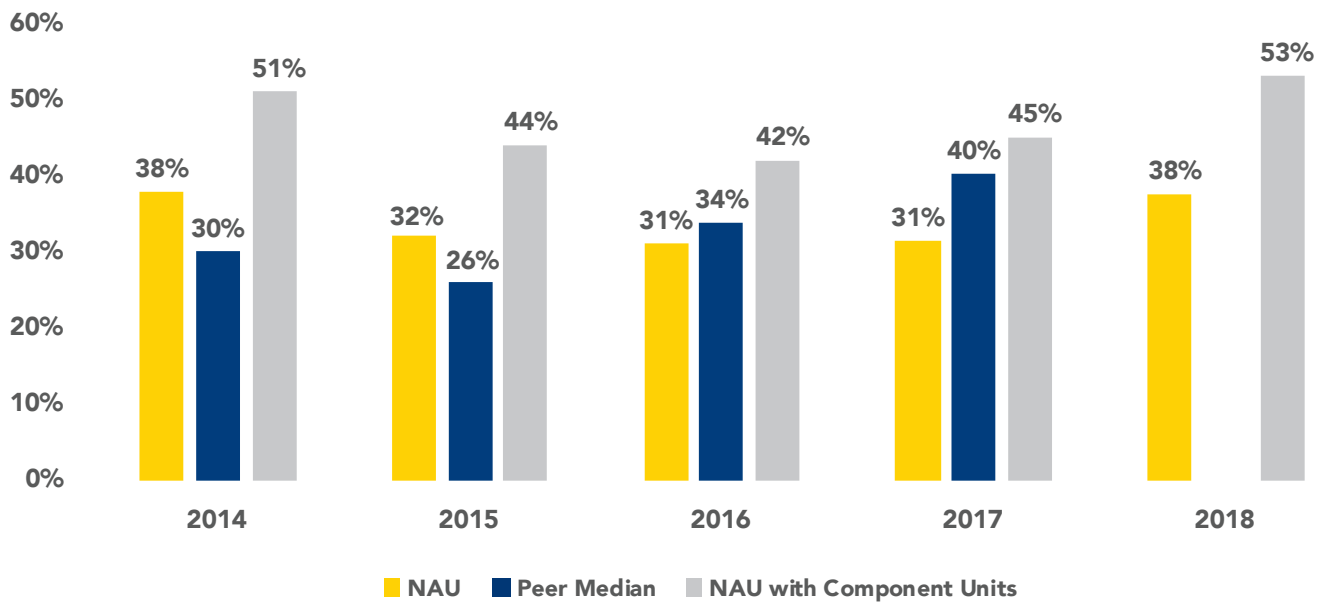
Net Position is the net of all university assets versus liabilities. Net position is shown by category: Capital Assets, Restricted and Unrestricted. The net position with pension liability bars show net position with the GASB standards requiring universities to show pension and other post employment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

EDUCATIONAL AND GENERAL EXPENSES (E&G) PER FTE



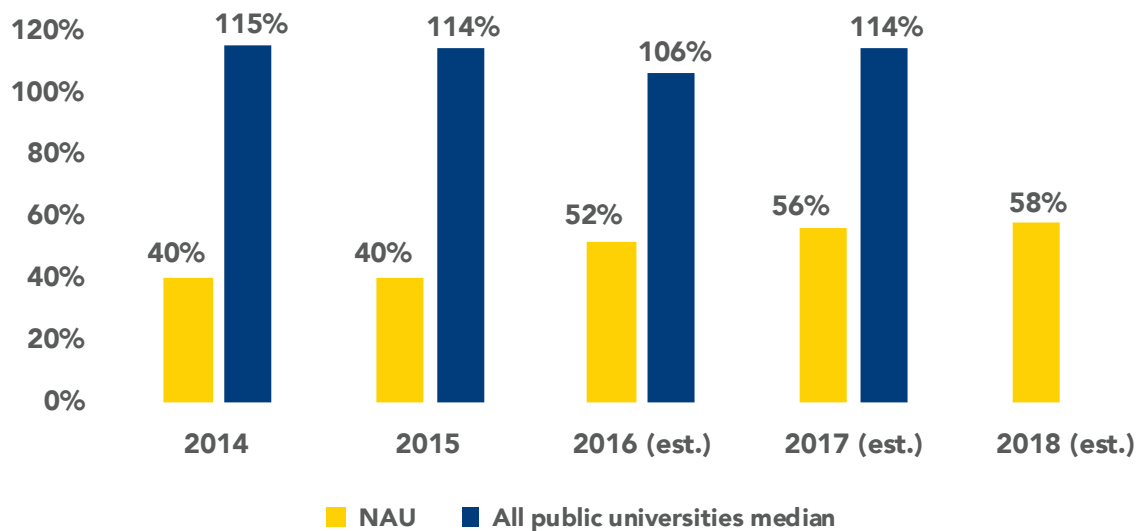
E&G per FTE includes all operating expenses of the university except for auxiliary units, research and scholarship expenses. ABOR also excludes depreciation from the calculation. IPEDS E&G per FTE use the national higher education database. The calculation is slightly different as it includes depreciation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

EXPENDABLE NET POSITION VS. TOTAL EXPENDITURES



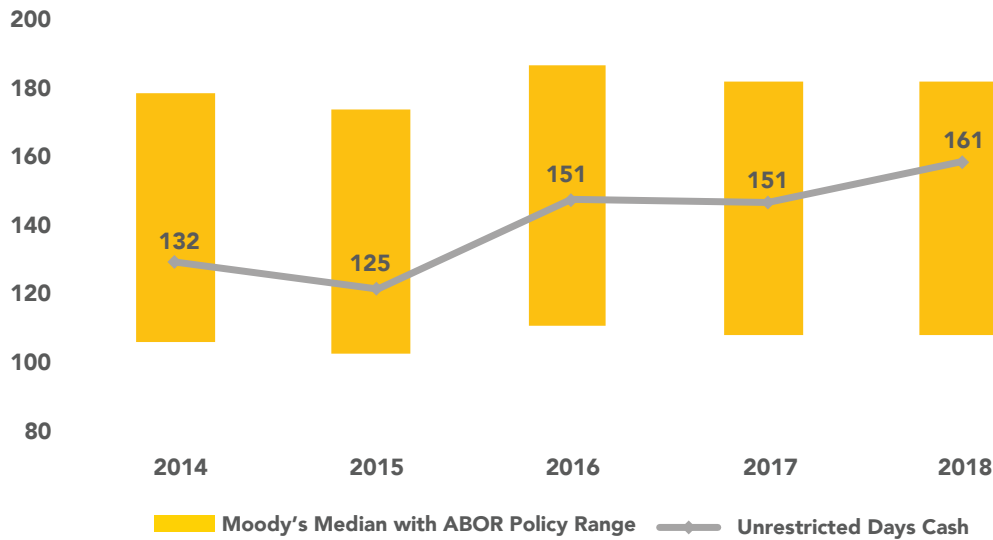
Expendable Net Position vs. Total Expenditures measures financial strength and flexibility by indicating how long a university could function using its expendable resources without relying on additional assets. When looking at the combination of university and component units, a ratio of 40% is considered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

SPENDABLE CASH AND INVESTMENTS TO TOTAL DEBT



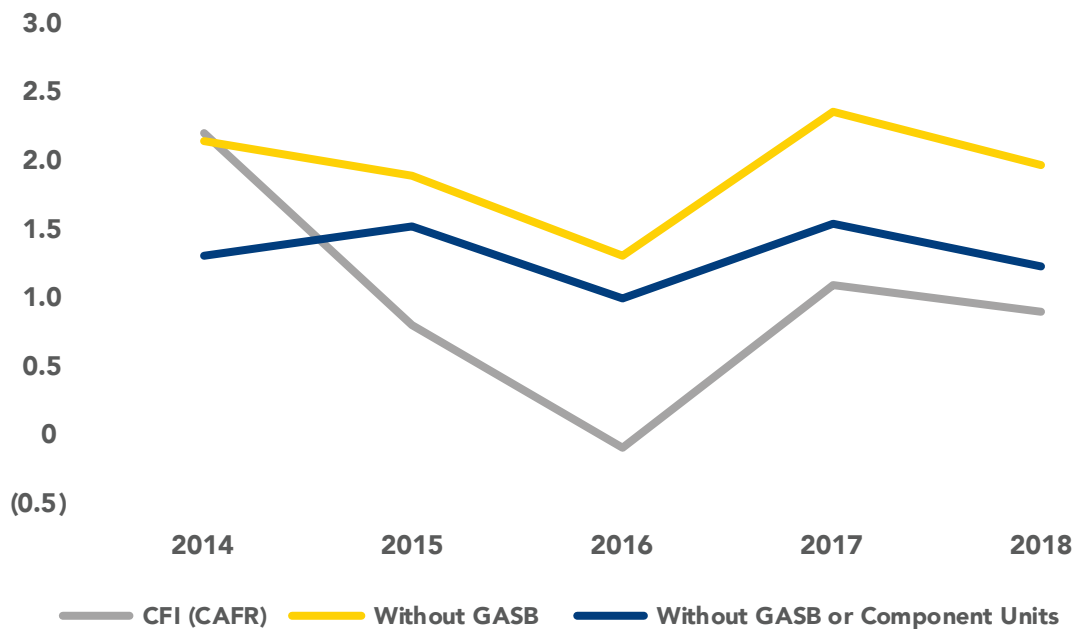
Spendable Cash and Investments to Total Debt measure is used by Moody's to compare cashflow to debt. This measure is compared to the median of all public universities.

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



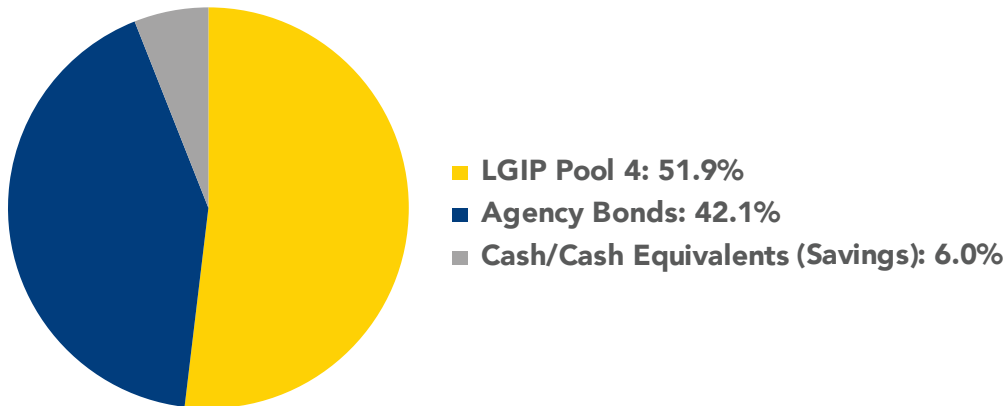
The Composite Financial Index (CFI) combines several ratios to give an overall picture of the financial health of the institution. The CFI is shown three ways:

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	\$175,014	\$171,659	\$196,313	\$180,995
Total Net Return	0.8%	0.5%	0.5%	0.6%

OPERATING FUNDS BREAKDOWN (BY INVESTMENT)



ENDOWMENT FUND INVESTMENTS (dollars in thousands)

	2016	2017	2018	3-Year Average
Pooled Endowments				
Year-End Market Value	\$6,852	\$7,298	\$7,563	\$7,238
Total Net Return	-4.2%	6.1%	4.4%	2.1%
Other Endowments				
Year-End Market Value	\$20,856	\$23,224	\$24,534	\$22,871
Total Net Return	-3.6%	6.3%	8.0%	3.6%

ENDOWMENT FUNDS BREAKDOWN BY ASSET ALLOCATION

