The University of Arizona

ANNUAL
Financial Report

Year Ended
June 30, 2007

The BIO5 Institute at The University of Arizona brings together scientists from five disciplines – agriculture, medicine, pharmacy, basic science and engineering – to treat disease, feed humanity and preserve livable environments. BIO5 creates science, industry and education partnerships to engage in leading–edge research, translate innovations to the market and to inspire and train the next generation of scientists.

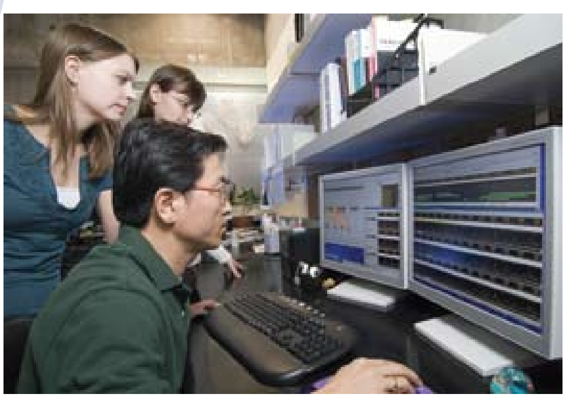
Deborah Daun
Communications Director
BIO5 Institute, The University of Arizona


John Canfield


John Sartin


Deborah Daun


John Sartin


John Sartin

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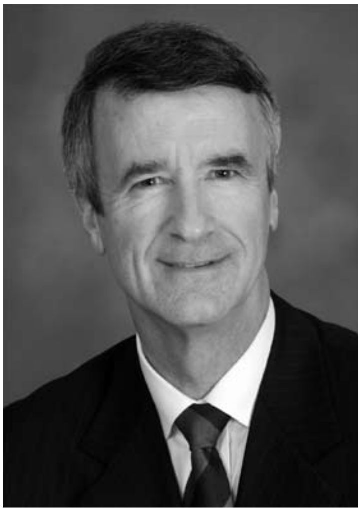
A MESSAGE *from the* PRESIDENT



Margaret Hartshorn

This year The University of Arizona began its 123rd year of operations by enrolling the largest freshman class in the University's history, and welcoming a record total enrollment of 37,217 students. With applications for next year continuing to grow, our popularity with students has never been greater. As we close the books on the 2007 fiscal year, our financial position is equally strong.

This year our state appropriation increased from $378 million to $421 million, a gain of $43 million, or 11%, over the previous year. Tuition and fee income increased by $16 million over the prior year, and we saw a substantial increase in the University's auxiliary enterprises, which grew by 9% to $143.9 million. While we saw a slight decline in revenue from both federal and nongovernmental grants and contracts (less than 1% on nongovernmental and 2% on federal), these funds traditionally vary from year to year depending on the availability of funds and the commencement or closure of large projects. Importantly, the rate of return on our investments grew to 15.86%, a gain of nearly 6% over last year's annual rate of return.

Overall, it was a very strong year for The University of Arizona, with total expenditures of nearly $1.3 billion for the year ended June 30th.

Former University of Arizona President, Henry Koffler, recently gave an eloquent talk about how our budget and financial system are really numeric shorthand for the life and priorities of the university. Behind the numbers that appear in this financial report are people – faculty, staff and students – who together make The University of Arizona one of the premier public research universities in the world.

As we strive to meet the future needs of the nation's fastest growing state, we are making every effort to put people first, and this is enabling us to attract the best and brightest minds to our University.

The research of our faculty is having a profound effect on the understanding that we have of the world in which we live and the quality of life that we experience. Research at this University is unlocking secrets for feeding the undernourished; explaining global climate change; helping Arizona protect and utilize water and other natural resources; developing new treatments for cancer and diabetes; bringing the world better understanding of the evolution of humankind and the origins of our solar system.

We are able to build optical telescopes that are unequaled in size and quality. We are developing weather prediction models that are unique in their precision. We are unlocking the hidden secrets of Alzheimer's. And while we are perhaps most noted for research in the physical sciences, where we are currently ranked number one in the nation by the National Science Foundation; our University is also custodian to the world's premier museum on Southwestern culture, the top modern poetry center in the country, and one of the nation's leading dance programs. Across every discipline, and on a daily basis, this institution is improving the human condition for the people of Arizona.

The range of discovery and innovation by our faculty shapes the uniqueness of this institution, and gives students at the U of A learning opportunities that can be found in no other place on earth.

All of us at The University of Arizona are proud of what our people have accomplished in the past year. It builds on decades of success and gives us a justifiable cause for excitement at what lies ahead.

Sincerely,

Robert Shelton
President

Institutional Profile

The University of Arizona was established as a land grant institution in 1885, 27 years before the Arizona Territory became a state. The years following World War II and the Korean War were a period of substantial growth for the University. In the late 1950s, enrollment greatly increased, with the University gaining an average of more than 1,200 students per year for 17 years. During this period, the foundation was laid for the development of a leading research institution. Today, the University serves about 36,800 students through 19 colleges offering 347 degree programs, and is ranked among the leading research universities in the country.

Enrollment Statistics
Academic Year 2006 – 2007

Undergraduate enrollment – Fall 2006	28,442
Graduate enrollment – Fall 2006	8,363
Degrees awarded – Bachelor's	5,613
Degrees awarded – Advanced	2,144
Tuition and fees for full-time student – Resident	$4,766
Tuition and fees for full-time student – Non-resident	$14,972

The University's 2,262 full time equivalent faculty and 1,308 full time equivalent graduate teaching and research assistants and associates educate a diverse student population. The student population is 52.5% female, 14.5% Hispanic, 5.8% Asian or Pacific Islander, 2.8% Black, and 2.2% Native American. It includes students from all fifty states, and 122 foreign countries. International students totaled 6.2% of the Fall 2006 enrollment, with the largest numbers of foreign students hailing from the People's Republic of China, India, Korea, Mexico and Japan.

Research Excellence

The University offers an unusually extensive and varied group of research, graduate and professional teaching programs. During the past 25 years the University has emerged as one of the top universities in the nation (top 13 among public research universities), according to the National Science Foundation. With its abundance of biological sciences, medical programs and interdisciplinary strengths, the University has tremendous potential for further research expansion.

The University was one of the original Carnegie Research I institutions. In 1985, the University was elected to membership in the Association of American Universities, a prestigious group limited to North America's preeminent public and private research universities.

Eminent research programs provide advances in applied and basic or pure knowledge that fulfill the University's obligation to the State and the nation. Such programs attract truly distinguished faculty who serve the University's students through a comprehensive range of undergraduate and graduate programs.

High-quality research programs secure extensive federal and corporate funding that enriches instructional programs by providing tremendous education and research opportunities for the students, as well as helping to provide up-to-date facilities and equipment.

Strengths

A persistent theme in the University's history has been developing strengths based on its unique physical and cultural environment. Some examples follow:

- As Arizona's land grant institution, arid land agriculture, mining and geological studies became early focal points of a broad range of research, teaching and public service activities. The College of Agriculture and Life Sciences is dedicated to improving the quality of life for people in Arizona, the nation and the world. The Cooperative Extension Service has faculty and staff in all of Arizona's counties, on Indian Reservations, and in over 30 communities and research centers.

- The National Science Foundation (NSF) ranked The University of Arizona as America's No. 1 university for research expenditures in the physical sciences, which includes astronomy, physics and chemistry. Overall, the UA's ranking among public research universities moved from 14th to 13th, and it remained the nation's 21st institution among all public and private universities and colleges.

- The College of Agriculture received continued funding for a $9.7 million National Science Foundation award to map wild genomes of rice. This endeavor has broad implications for identifying disease resistant genes and improving the world's food supply.

John Sartin

- John G. Hildebrand, The University of Arizona neurobiologist known for his seminal work on the neurobiology and development of insect olfactory systems and their effects on insect behavior, was elected to the National Academy of Sciences on May 1, 2007. Election to membership in the academy is one of the highest honors a U.S. scientist or engineer can achieve. Hildebrand's work integrates several fields of biology, including anatomy, physiology, behavior, developmental biology, biochemistry and neurobiology. The only newly elected member from Arizona, he joins 17 other NAS members at the UA.

- UA researchers at the Mel and Enid Zuckerman College of Public Health are conducting research studies to test whether green tea can prevent or slow the development of lung cancer in former cigarette smokers. Early research suggests that drinking four cups of green tea daily was associated with a 30 percent decrease in DNA damage.

- The Arizona Health Sciences Center (AHSC) is the State's only academic health sciences center, consisting of the Colleges of Medicine, Nursing, Pharmacy and Public Health. In conjunction with several independent non-profit health care organizations in Tucson (University Medical Center and University Physicians Healthcare), AHSC provides excellent education, research, and health care to the State and its people.

- AHSC serves as the core of a broad network of health services throughout the State with a focus on excellence in health promotion, health restoration and health maintenance. Ranked as the top program of its kind in the country, the Arizona Telemedicine Program provides faculty and other medical consultation to rural physicians and other health professionals through high-resolution video imaging.

- Researchers at the UA's Artificial Intelligence Lab continue working on the Dark Web Project. This project scours the Internet to spot national security threats. The UA has received federal funding in excess of $1.5 million to further this work.

- The clear skies of the Southwest have attracted generations of outstanding astronomers and planetary scientists, as well as the telescopes needed for their important work. An assembly of major telescopes and facilities has helped to make the University a world center for astronomy and planetary sciences, with cooperative projects with Germany, Italy and the Vatican. This reputation will be enhanced by the international astrophysical observatory on Mt. Graham, and by recent international prominence gained from University designed and built instruments.

- On August 4, 2007, the Phoenix Mars Lander was successfully launched from Cape Canaveral, Florida. Beginning in 2008, the lander will begin analyzing Mars' northern polar ice sheet. The UA has participated in almost every American planetary mission for half a century and has received more NASA grants for space exploration than any other university in the nation. It is the first public university to lead a mission to Mars.

- Research of past cultures in Arizona has resulted in archaeological leadership in the Southwest setting. As an offshoot, this has led to leadership in the Classical and Middle East settings as well.

- The many Native American communities in the State have presented the University with opportunities not only to study and help preserve rich cultures, but also to assist these communities in their economic and educational development.

- Astronomy and archaeology provided the intellectual basis for development of a new science, dendrochronology. The study of tree rings as indicators of past environments is of increasing importance in identifying worldwide environmental trends.

- The location of the University, near the international boundary with Mexico, and the special social, economic, legal and political circumstances of the border zone provide outstanding educational, research and service opportunities in various Hispanic language, literature, and cultural programs.

- The College of Engineering is home to the Sustainability of Water Resources in Semi-Arid Regions (SAHRA) project sponsored by the National Science Foundation. The SAHRA project aims, through research and outreach, to manage water resource systems and contribute to sustainability of adequate water supplies in semi-arid regions of the world. The director of this project recently won the International Hydrology Prize, widely regarded as the most prestigious award in the field.

- During fiscal year 2007, the Office of Technology Transfer (OTT) generated approximately $1.2 million dollars in licensing income, a decrease from fiscal year 2006. OTT executed a total of 37 Major Agreements compared to 43 in fiscal year 2006. The University received 104 technically and administratively complete invention Disclosures from faculty and staff, and 11 U.S. Patents were issued to ABOR on behalf of the University. OTT and its Licensees filed 54 full U.S. Patent Applications including divisional, continuation and PCT (Patent Cooperation Treaty) applications along with an additional 90 U.S. Provisional Patent Applications to provide a one-year evaluation period for various technologies. This was against 39 and 71 respectively for fiscal year 2006.

Opportunities and Challenges

The University has been meeting the needs of the people of the State through numerous programs in business, engineering, and natural and medical sciences. Given continuing increases in population and the potential for economic growth, the State will increasingly face challenges and opportunities in areas as diverse as water resource management, transportation, education, land use planning, technology development and transfer, and the provision of jobs for a growing population. The University has assisted in attracting corporations to the State and, through its faculty and graduates, has stimulated important business enterprises, especially in optics and biotechnology. The latter has unique potential now, based on the University's strong programs in medicine, agriculture and science, and on rapidly expanding federal funding for biotechnology research.

Management regards the University as well positioned to continue its strong financial condition and service to students, patients, the research community, citizens of Arizona and our country. Future successes are largely dependent upon cost containment, the ability to recruit and retain the highest quality students, faculty and staff, and ongoing financial and political support from the State government.

The University is increasing its competitiveness in obtaining sponsored research funds by the expansion of laboratory-oriented facilities and by pursuing organizational and programmatic initiatives (e.g. optics, biotechnology, and medicine).

John Sartin

For instructional purposes the University is dependent upon State appropriations and tuition and fees, with gifts providing some additional revenues, primarily for scholarships. The main revenue sources for government services, including public education, are State sales and income taxes. Consequently, as the State economy continues to improve (or the State alters the tax base that supports government services), appropriated funds may increase slowly or moderately. Since resident tuition continues to be among the lowest of the public universities in the nation, there are opportunities to increase tuition, as long as financial aid resources also increase.

John Sartin

Private gift contributions are an important supplement to the fundamental support from the State of Arizona and are a significant factor in the growth of academic, research, and patient care units. Economic pressures affecting donors may also affect the future level of support afforded the University from corporate and individual giving.

The State is continuing to project rapid growth in college enrollment over the next ten years, and the University is making every effort to meet those needs, while continuing to preserve our standards of excellence and maintaining a leadership position in higher education.

Independent Auditors' Report

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

Independent Auditors' Report

Members of the Arizona State Legislature

The Arizona Board of Regents

We have audited the accompanying financial statements of the business-type activities and aggregate discretely presented component units of the University of Arizona as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the aggregate discretely presented component units. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the aggregate discretely presented component units, is based solely on the reports of the other auditors.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the aggregate discretely presented component units were not audited by the other auditors in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

As described in Note 1, the University's financial statements are intended to present the financial position, and the changes in financial position and, where applicable, cash flows of only those portions of the business-type activities, major fund, and aggregate discretely presented component units of the State of Arizona that are attributable to the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2007, and the changes in financial position and, where applicable, cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and aggregate discretely presented component units of the University of Arizona as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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The information included in A Message from the President, Institutional Profile, and the Management's Discussion and Analysis sections listed in the table of contents has not been subjected to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on such information.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters at a future date. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

[redacted]

Debbie Davenport
Auditor General

November 15, 2007

Management's Discussion and Analysis

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the University for the year ended June 30, 2007. Information for the year ended June 30, 2006, is also provided for comparative purposes. This discussion was prepared by management and is focused on the University. It should be read in conjunction with the financial statement and accompanying notes, which follow this section.

Using the Financial Statements

The University's financial report includes three statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the financial position of the University at the end of the fiscal year and includes all assets and liabilities of the University. Assets and liabilities are classified as either current or noncurrent. Current liabilities are obligations that will be paid within one year of the statement date. Current assets are those resources available to satisfy current liabilities. The difference between total assets and total liabilities, referred to as net assets, is one indicator of the financial condition of the University. Generally, assets and liabilities are measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

The Statement of Revenues, Expenses and Changes in Net Assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Under the reporting standards, State appropriations, contributions and investment income are considered nonoperating revenues. As a result of these standards, the University typically will appear to operate at a loss. By comparison, the total change in net assets is a better indicator of whether the overall financial condition has improved or worsened during the year.

The Statement of Cash Flows reflects the inflows and outflows of cash and cash equivalents during the year. It shows the various cash activities by type, reconciling the beginning cash and cash equivalents amount to the ending cash and cash equivalents amount, which is shown on the Statement of Net Assets described above. In addition, this statement reconciles cash flows from operating activities to operating income/(loss) on the Statement of Revenues, Expenses and Changes in Net Assets described above.

As indicated in the Condensed Statement of Net Assets, which follows, the University's financial position continued to improve in fiscal year 2007. Net assets increased by $62.2 million primarily due to increased state appropriations, investment income and restricted gift donations.

John Sartin

Condensed Financial Statement Information

STATEMENT OF NET ASSETS

A summarized comparison of the University's assets, liabilities and net assets (in thousands of dollars) at June 30, 2007, and at June 30, 2006, is as follows:

	2007	2006	% Change
Current assets	$ 314,909	$ 336,074	-6%
Noncurrent assets other than capital assets	429,322	339,298	27%
Capital assets	1,271,772	1,202,572	6%
Total assets	**$ 2,016,003**	**$ 1,877,944**	**7%**
Current liabilities	$ 255,311	$ 195,355	31%
Noncurrent liabilities other than debt	105,674	103,450	2%
Long-term debt	826,535	812,879	2%
Total liabilities	**$ 1,187,520**	**$ 1,111,684**	**7%**
Net assets			
Invested in capital assets, net of related debt	$ 410,573	$ 388,472	6%
Restricted - nonexpendable	118,585	106,263	12%
Restricted - expendable	133,550	122,003	9%
Unrestricted	165,775	149,522	11%
Total net assets	**$ 828,483**	**$ 766,260**	**8%**

Current Assets and Current Liabilities

Current assets consist primarily of cash and cash equivalents, securities lending collateral, short-term investments and various receivables (primarily accounts receivable and government grants). Current liabilities consist primarily of trade accounts payable and accrued liabilities, securities lending obligations, deferred revenues, and the current portion of long-term debt payable. The University's 1.23:1 current ratio (current assets to current liabilities) reflects adequate liquidity and sufficient short-term ability to meet upcoming obligations.

During fiscal year 2007, the University reversed its position in cash and cash equivalents to maximize investment income by extending duration to capture higher interest rates that appear to be headed down due to market volatility.

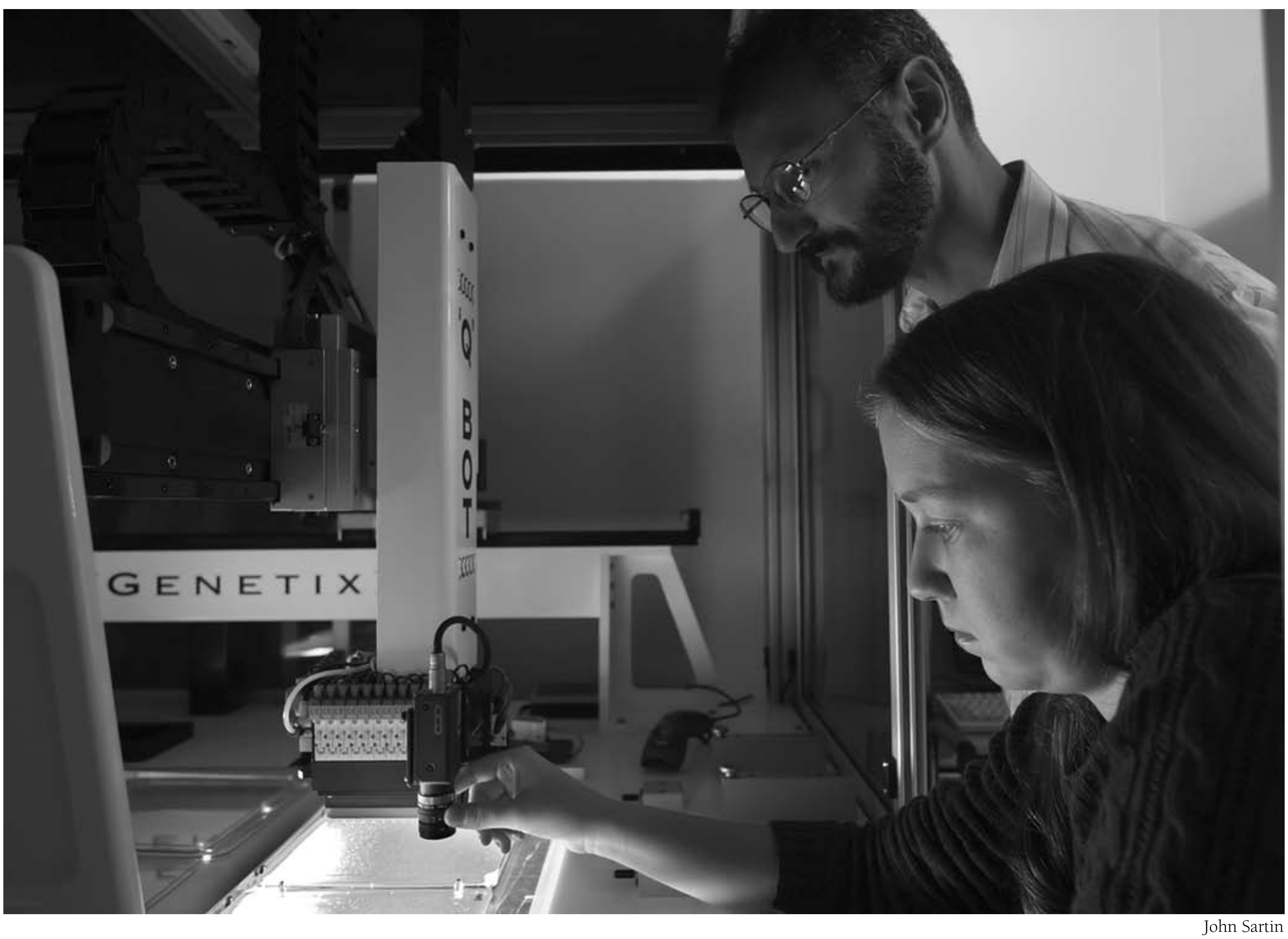
John Sartin

Net Assets

Restricted expendable net assets increased primarily due to market value gains on quasi-restricted endowments and increased appropriations for the Arizona Financial Aid Trust. The positive increase in restricted nonexpendable net assets is largely attributable to an increase in the fair market value of endowments and new gifts. Net investment in capital assets increased due to spending for leasehold improvements, new and ongoing construction projects, and equipment acquisitions. Unrestricted net assets increased primarily due to the increase in revenues outpacing expenses.

Although unrestricted net assets are not subject to externally imposed stipulations, substantially all of the University's unrestricted net assets have been designated for various academic and research programs and initiatives, and for capital projects.


John Sartin



John Sartin

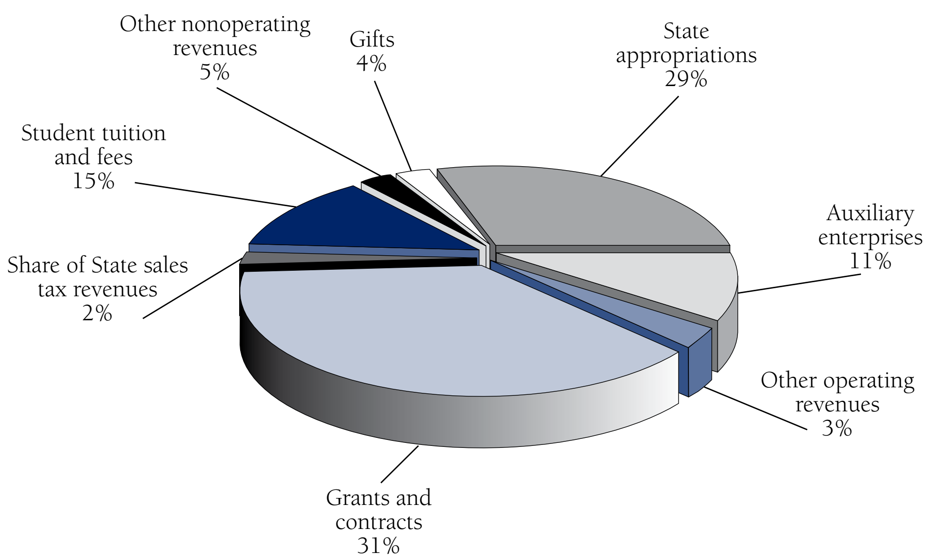
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A summarized comparison of the University's operations (in thousands of dollars) for the year ended June 30, 2007, and for the year ended June 30, 2006, is as follows:

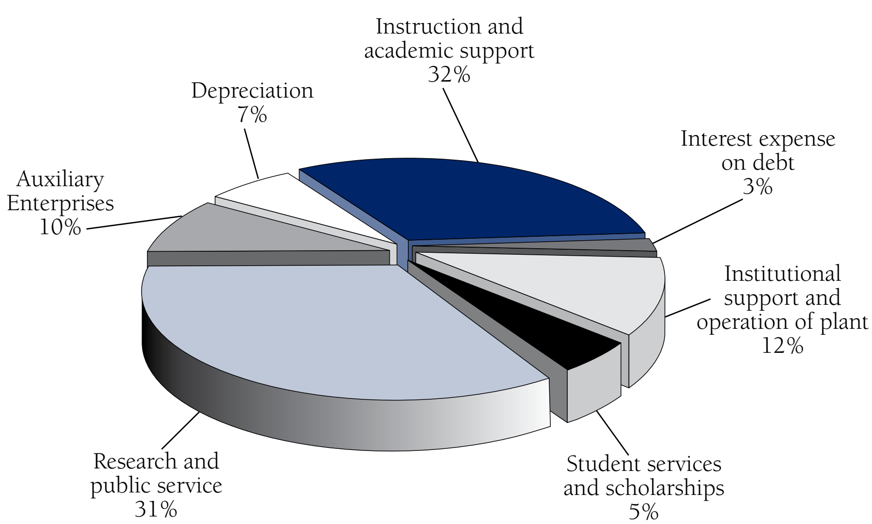
	2007	2006	% Change
Operating revenues			
Student tuition and fees	$ 209,521	$ 193,498	8%
Grants and contracts	422,149	425,189	-1%
Auxiliary enterprises	143,910	132,183	9%
Other operating revenues	36,705	33,823	9%
Total operating revenues	**$ 812,285**	**$ 784,693**	**4%**
Operating expenses			
Instruction and academic support	$ 420,362	$ 398,517	5%
Research and public service	416,473	416,134	0%
Student services and scholarships	65,724	63,513	3%
Institutional support and operation of plant	157,662	145,880	8%
Auxiliary enterprises	130,567	122,042	7%
Depreciation	93,999	84,871	11%
Total operating expenses	**1,284,787**	**1,230,957**	**4%**
Operating loss	**$ (472,502)**	**$ (446,264)**	**6%**
Nonoperating revenues (expenses)			
State appropriations	$ 389,897	$ 358,046	9%
Share of State sales tax revenues	30,744	20,576	49%
Gifts	58,083	51,111	14%
Investment income	42,163	25,742	64%
Interest expense on debt	(38,426)	(31,407)	22%
Other nonoperating revenues, net	25,123	28,958	-13%
Net nonoperating revenues	**$ 507,584**	**$ 453,026**	**12%**
Income before capital and endowment additions	**$ 35,082**	**$ 6,762**	**419%**
Capital and endowment additions	27,141	25,673	6%
Increase in net assets	**$ 62,223**	**$ 32,435**	**92%**
Net assets, beginning of year	**766,260**	**733,825**	**4%**
Net assets, end of year	**$ 828,483**	**$ 766,260**	**8%**

The following graphs illustrate operating and nonoperating revenues and expenses for the year ended June 30, 2007.

Operating & Nonoperating Revenues



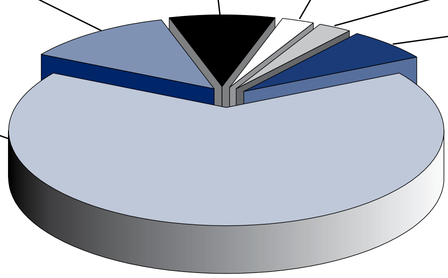
Operating & Nonoperating Expenses



In addition to programmatic (functional) classification of operating expenses, a summary of the University's expenses by natural classification (in thousands of dollars) for the years ended June 30, 2007, and 2006 follows:

Natural Classification of Operating Expenses:	**2007**	**2006**	**% Change**
Salaries, wages and benefits	$ 838,739	$ 806,376	4%
Supplies and materials	117,423	113,795	3%
Services, including travel	159,569	149,631	7%
Utilities	39,663	39,761	0%
Scholarships and fellowships	35,394	36,523	-3%
Depreciation	93,999	84,871	11%
Total Operating Expenses	**$ 1,284,787**	**$ 1,230,957**	**4%**

Natural Classification of Operating Expenses for the year ended June 30, 2007



Operating revenues and expenses

Operating revenues: In fiscal year 2007, the University's operating revenues increased by $27.6 million, or 4%, over fiscal year 2006. The changes in revenues are as follows:

- **Student tuition and fees:** Tuition and fees rose by $16 million due to increased tuition. In-state undergraduate resident tuition and fees increased by $268, or 6%, to $4,766, while out-of-state undergraduate tuition and fees increased by $1,290, or 9.4%, to $14,972.
- **Federal grants and contracts:** Revenues declined 2% in fiscal year 2007. This decrease is directly related to large projects ending. Revenues vary from year to year for many reasons, including the availability of funding from sponsors and the commencement or closure of particularly large projects.
- **State & local grants & contracts:** $18.7 million in state and local grants and contracts were received for the fiscal year, an increase of $3.6 million, or 23.6% from the previous year.
- **Nongovernmental grants & contracts:** Decreased by $53 thousand or less than 1% from the previous fiscal year.
- **Sales and services of educational units:** Increased from $23.6 million to $24.5 million. This was a 4% increase from 2006.
- **Auxiliary enterprises:** Increased from $132.2 million to $143.9 million. This was a 9% increase over the previous fiscal year.

Operating expenses: Operating expenses were nearly $1.3 billion for the fiscal year ending June 30, 2007. This was an increase over the previous fiscal year of $54 million, or 4%. Expenses increased primarily due to increases in salaries and wages (4.6%), benefits (2.1%), supplies and materials (3.2%), services (6.6%) and increased depreciation expenses (10.7%). Changes in the major categories of expense are as follows:

- **Total compensation** is comprised of academic and staff salaries, hourly compensation, and benefits. Compensation and benefits increased by 4% for the fiscal year, from $806 million to $838 million.
- **Scholarships & fellowships** decreased from $36 million to $35 million, a 3% reduction.
- **Utilities** decreased slightly by $98 thousand from the previous fiscal year, to $39.7 million.
- **Supplies and materials** increased by 3.2% in 2007, from $113 million to $117 million.
- **Services, including travel** increased from $149 million to $159 million, an increase of 6.6%.
- **Depreciation** expense of $94 million is $9.1 million more than 2006, an increase of 10.7%.

Nonoperating revenues and expenses

State appropriations: Appropriations, including the University's share of state sales taxes, increased from $378 million to $421 million, an increase of $43 million over the prior fiscal year. The increase of 11% in state appropriations and sales tax revenues is related to funding for enrollment growth, faculty retention, pay increases and increased health insurance costs.

Investment income: Pooled operating funds are invested in short term instruments. The increase in investment income within the operating funds is the result of purchasing agency securities with higher yields than those offered in FY 06. Investment income earned on capital projects deposits with trustees was reduced by $1 million due to the average balance of funds decreasing in FY07 vs. FY06. Participation in the public markets generated higher total earnings and helped the Growth Income Pool (endowment investments) to experience an annual return of 15.5% before administrative costs and payouts in FY07. This represents an increase of approximately 5.8% over last year's annual rate of return, as presented in the following table (above right):

(in thousands of dollars)	2007	2006
Pooled operating funds	$ 20,428	$ 8,613
Deposits with trustees for capital projects	3,062	4,099
Endowments	18,673	13,030
Total investment income	$ 42,163	$ 25,742

Nonoperating expenses: This expense (interest expense on debt) increased by 22% from $31.4 million in 2006 to $38.4 million in 2007 due to debt payments on newly commissioned buildings.

Other nonoperating revenues: Decreased from $28.9 million to $25.1 million. This was a 13% decrease over the previous fiscal year.

Capital and Debt Analysis

Fiscal year 2006-07 marks the completion of construction projects related to the Research Infrastructure initiative passed in 2003 by the State Legislature, House Bill 2529. The completed research projects consist of the Thomas W. Keating Bioresearch Building and the Arizona Biomedical Research Collaborative Building. The Thomas W. Keating Building is a $68.3 million state-of-the-art interdisciplinary research facility that will provide approximately 170,000 square feet of molecular life sciences research space to a diverse group of faculty and students from the College of Science, the College of Agriculture and Life Sciences, the College of Medicine, the College of Pharmacy, and the College of Engineering. The Arizona Biomedical Research Collaborative Building is an 85,600 square foot facility located in downtown Phoenix. Together with the leased University of Arizona medical building (renovated Phoenix Union High School), a planned University of Arizona College of Medicine Education Building and the Arizona Biomedical Collaborative II Building, these facilities will become part of the Phoenix Bioscience Center.

The Phoenix Bioscience Center will support a collaborative effort among The University of Arizona, Arizona State University, and Northern Arizona University to provide statewide healthcare educational programs, biomedical research programs, and health policy. The Arizona Biomedical Research Collaborative Building is a cooperative effort between faculty and research members of The University of Arizona and Arizona State University to perform research in cancer, diabetes, neurological diseases, and cardiovascular diseases. The University contributed $17.2 million (58%) towards the building construction cost of $29.6 million.

Another capital project completed in FY 2006-07 was the Architecture Building Expansion Project. This project upgraded the mechanical, electrical, and telecommunication systems, and expanded the main Architecture Building by 33,500 square feet. The building space expansion allowed the College to centralize several remote Architecture and Landscape Architecture program sites to the main Architecture Building. This will foster relationships among programs, add efficiencies, and create a more effective learning environment.

Arizona Revised Statutes §41-793 and Arizona Board of Regents policy 7-106 require the University to develop an annual comprehensive Capital Improvement Plan (CIP) to administer construction projects and real estate acquisitions. The Plan outlines the University's building inventory and capital improvement strategies for: addressing deficiencies in academic and research space; managing building renewal and deferred maintenance projects; and expanding student dormitory and parking capacities. New projects presented in the CIP include project descriptions, justifications, and funding source for the construction costs. A summary report of the University's debt capacity is also presented to demonstrate the ability to finance additional capital projects through debt instruments.

The University generally finances capital improvements and acquisitions through the issuance of System Revenue Bonds (SRBs) and Certificates of Participation (COPs). Prior to the issuance of SRBs or COPs, a financing and funding plan must be submitted for review and approval by the Arizona Board of Regents and the State Joint Committee on Capital Review. The University's ability to issue debt is determined by internal policy and State law (Arizona Revised Statutes §15-1683) using a debt ratio limit. The debt ratio limit established by State law is 8% (total SRBs and COPs debt service to total operating expenses and debt service). The University's legislative debt ratio at the end of fiscal year 2006-07 was 4.5%.

During fiscal year 2006-07, the University issued System Revenue Bonds Series 2007 for $31 million and Refunding Certificate of Participation Series 2007A, 2007B, and 2007D totaling $105.1 million. The 2007 SRBs were issued to finance $7 million of a total project budget of $21 million for the Law Commons Project, $19 million of a total project budget of $20 million for the Intercollegiate Athletics Facilities (ICA) Project, and $4.6 million for the Residence Life Building Renewal Phase IIA and IIIA Project. The Law Commons and ICA projects will provide additional space for instruction, student athletes, and faculty and staff. The Residence Life Building Renewal Project will enhance building infrastructure for certain student dormitories on campus. The estimated construction schedules for these projects are from eighteen months to two years. The COPs Series 2007A, 2007B, and 2007D were issued to refund a portion of the University's outstanding principal, reducing interest rate risk and creating economic benefit from lower rates. Detailed debt service information associated with these debt issues is available in Note 8 of the accompanying notes to the financial statements.

Economic Outlook

The University of Arizona continues to evaluate changes necessary to serve as a center for advanced graduate and professional studies while emphasizing research and providing excellence in undergraduate programs. University management continues to develop long and short term strategic plans to address this and other challenges to the financial health of the institution. At the same time, the Arizona Board of Regents and the three State universities are actively evaluating creative solutions to contain costs and generate new revenues in order to continue providing quality and affordable education.

Arizona's three state universities received an increase in FY 2007 state expenditure authority of $142.6 million which is an 11.4 percent increase over their FY 2006 expenditure authority of $1.26 billion. This comes from an increase of $103.6 million in new general fund monies and $39 million in remitted tuition, fees and miscellaneous revenues. At Arizona State University state expenditure authority is up $82.2 million (13.7%), at Northern Arizona University state expenditure authority is up $14.6 million (8.9%), at the University of Arizona state expenditure authority is up $40.0 million (8.3%), and at the Arizona Board of Regents expenditure authority is up $5.8 million (63%).

The University requested and received approval from the Arizona Board of Regents to increase tuition this past fiscal year. Due to increased financial needs to attract and retain talented faculty and staff, it is the intention of management to continue these requests until the University reaches the top of the bottom one third of the top fifty public institutions in tuition costs.

Since the University is ultimately subject to the same economic variables that affect other financial entities, it is not possible to predict future outcomes. Management is well aware of the challenges ahead and is working diligently to continue to provide quality instruction, research and public service to the State of Arizona and the nation.

Statement of Net Assets

June 30, 2007 (in thousands of dollars)

Assets

Current assets	
Cash and cash equivalents (Note 3)	$ 83,937
Securities lending cash collateral (Note 3)	79,306
Short-term investments (Note 3)	66,495
Receivables:	
Accounts receivable (net of allowances of $617)	24,827
Government grants receivable	49,001
Student loans (net of allowances of $246)	1,111
Inventories	9,114
Deferred expenses	1,118
Total current assets	**314,909**
Noncurrent assets	
Restricted cash and cash equivalents (Note 3)	18,417
Restricted investments with bond trustees (Note 3)	31,135
Long-term investments (Note 3)	111,331
Restricted investments held for others (Note 3)	38,647
Endowment investments (Note 3)	199,591
Student loans receivable (net of allowances of $1,578)	15,010
Long-term receivables	6,239
Deferred expenses	8,952
Capital assets, not being depreciated (Note 5)	108,837
Capital assets, being depreciated, net (Note 5)	1,162,935
Total noncurrent assets	**1,701,094**
Total Assets	**$ 2,016,003**

Liabilities

Current liabilities	$ 38,315
Accounts payable	31,924
Accrued payroll and benefits	1,371
Accrued compensated absences (Note 7)	79,306
Obligations under securities lending (Note 3)	54,795
Deferred revenue and deposits (Note 6)	8,895
Funds held for others	
Current portion of long-term debt (Note 8)	35,880
Funded by University revenues	4,825
Funded by State of Arizona appropriations/HB2529	**255,311**
Total current liabilities	
Noncurrent liabilities	
Deferred revenue and deposits (Note 6)	29,870
Accrued compensated absences (Note 7)	32,236
Funds held for others	43,568
Long-term debt (Note 8)	
Funded by University revenues	628,475
Funded by State of Arizona appropriations/HB2529	198,060
Total noncurrent liabilities	932,209
Total Liabilities	**$ 1,187,520**

Net Assets

Invested in capital assets, net of related debt	$ 410,573
Restricted for nonexpendable:	
Endowments	100,579
Student loans	18,006
Restricted for expendable:	
Scholarships and fellowships	33,031
Academic/departmental uses	87,310
Capital projects	2,584
Debt service	10,625
Unrestricted	165,775
Total Net Assets	**$ 828,483**

See Notes to Financial Statements

Statement of Financial Position - Component Units

June 30, 2007 (in thousands of dollars)

Assets

Cash and cash equivalents	$ 70,842
Pledges receivable	54,199
Other receivables	2,949
Investments in marketable securities	370,266
Other investments	11,323
Property and equipment, net	15,572
Other assets	9,396
Total Assets	**$ 534,547**

Liabilities and Net Assets

Liabilities

Accounts payable and accrued expenses	$ 4,974
Annuities payable and other trust liabilities	21,347
Deferred revenue and deposits	3,750
Short-term and long-term debt	10,559
Other liabilities	312
Total Liabilities	**$ 40,942**

Net Assets

Unrestricted	$ 27,784
Temporarily restricted	153,653
Permanently restricted	312,168
Total Net Assets	**493,605**
Total Liabilities and Net Assets	**$ 534,547**

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2007 (in thousands of dollars)

Operating Revenues

Student tuition and fees, net of scholarship allowances of $85,793, pledged as security for long-term debt	$	209,521
Federal grants and contracts		339,722
State grants and contracts		15,625
Local grants and contracts		3,041
Nongovernment grants and contracts		63,761
Sales and services of educational departments, pledged as security for long-term debt		24,490
Auxiliary enterprises, net of scholarship allowances of $3,522, pledged as security for long-term debt		143,910
Other operating revenues, pledged as security for long-term debt		12,215
Total operating revenues	**$**	**812,285**

Operating Expenses

Educational and general		
Instruction	$	324,752
Research		351,199
Public service		65,274
Academic support		95,610
Student services		27,351
Institutional support		78,293
Operation and maintenance of plant		79,369
Scholarships and fellowships		38,373
Auxiliary enterprises		130,567
Depreciation (Note 5)		93,999
Total operating expenses	**$**	**1,284,787**
Operating Loss	**$**	**(472,502)**

Nonoperating Revenues (Expenses)

State appropriations	$	389,897
Share of State sales tax revenues		30,744
Gifts		58,083
Investment income		42,163
Interest expense on debt		(38,426)
Other nonoperating revenues, net		25,123
Net nonoperating revenues	**$**	**507,584**
Income before Capital and Endowment Additions	**$**	**35,082**
Capital grants, gifts and conveyances	$	12,315
Capital appropriations		10,901
Additions to permanent endowments		3,925
Total capital and endowment additions	**$**	**27,141**
Increase in Net Assets	**$**	**62,223**

Net Assets

Net Assets - Beginning of year		766,260
Net Assets - End of year	**$**	**828,483**

See Notes to Financial Statements

Statement of Activities - Component Units

Year Ended June 30, 2007 (in thousands of dollars)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Sales and services	$ 1,142			$ 1,142
Contributions	964	$ 42,692	$ 21,042	64,698
Rental revenues	7,829			7,829
Investment income	6,122	4,306	34,988	45,416
Net assets released from restriction	49,508	(40,228)	(9,280)	
Other income	8,688	4,850	102	13,640
Total revenues	**$ 74,253**	**$ 11,620**	**$ 46,852**	**$ 132,725**
Expenses				
Program services:				
Leasing related expenses	$ 6,680			$ 6,680
Payments to the University	32,994			32,994
Payments on behalf of the University	20,116			20,116
Supporting services:				
Management and general	5,823			5,823
Fund raising	5,110			5,110
Other expenses	93			93
Total expenses	**$ 70,816**			**$ 70,816**
Increase/(decrease) in Net Assets	**$ 3,437**	**$ 11,620**	**$ 46,852**	**$ 61,909**
Net Assets - Beginning of year	24,483	148,316	270,126	442,925
Transfers	(136)	157	(21)	
Cumulative effect of accounting changes		(6,440)	(4,789)	(11,229)
Net Assets - End of year	**$ 27,784**	**$ 153,653**	**$ 312,168**	**$ 493,605**

See Notes to Financial Statements

Statement of Cash Flows

Year Ended June 30, 2007 (in thousands of dollars)

Cash Flows from Operating Activities

Tuition and fees	$ 209,968
Grants and contracts	425,255
Payments for salaries, wages and benefits	(837,708)
Payments to suppliers	(325,866)
Payments for scholarships and fellowships	(35,394)
Loans issued to students	(33,476)
Collections on loans to students	32,797
Auxiliary enterprise receipts	142,804
Sales and services of educational departments	23,602
Other receipts	12,219
Net cash used for operating activities	**$ (385,799)**

Cash Flows from Noncapital Financing Activities

State appropriations	$ 389,897
Share of State sales tax receipts	26,918
Gifts and grants for other than capital purposes	61,981
Other nonoperating receipts	6,922
Federal Family Education Loans received	115,365
Federal Family Education Loans disbursed	(115,532)
Funds held for others received	85,334
Funds held for others disbursed	(78,431)
Net cash provided by noncapital financing activities	**$ 492,454**

Cash Flows from Capital and Related Financing Activities

Proceeds from issuance of capital debt, including premiums	$ 55,479
Capital appropriations	10,901
Capital grants and gifts received	10,888
Proceeds from sale of capital assets	15,030
Purchase of capital assets	(160,693)
Principal paid on capital debt and leases	(30,708)
Interest paid on capital debt and leases	(37,717)
Net cash used for capital and related financing activities	**$ (136,820)**

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	$ 273,143
Interest and dividends on investments	18,020
Purchase of investments	(300,507)
Net cash provided by investing activities	**$ (9,344)**
Net Increase In Cash and Cash Equivalents	**$ (39,509)**

Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year	$ 141,863
Cash and Cash Equivalents - End of year	**$ 102,354**

See Notes to Financial Statements

Statement of Cash Flows (Concluded)

Year Ended June 30, 2007 (in thousands of dollars)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	$ (472,502)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	93,999
Changes in assets and liabilities:	
Increase in:	
Receivables, net	(3,033)
Inventories	(1,903)
Accrued payroll and benefits and compensated absences	1,031
Deferred revenue and deposits	4,557
Decrease in:	
Deferred expenses	1,086
Accounts payable	(9,034)
Net Cash Used For Operating Activities	**$ (385,799)**

Significant Noncash Transactions

Gifts and conveyances of capital assets	$ 1,923
Change in fair value of investments	11,085
Refunding of long-term debt (Note 8)	100,595
Amortization of bond discount and issuance costs	(2,082)
Amortization of bond premium	1,366
Net gain on disposal of capital assets with an original cost of $18,261, accumulated depreciation of $16,338 and cash proceeds of $16,747	14,824
Amortization of IBM deferred rent	4,900

See Notes to Financial Statements

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Notes to Financial Statements

NOTE 1. BASIS OF PRESENTATION & SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements include all activities that are directly controlled by the University. In addition, the financial statements include the financial position and activities of the University's discretely presented component units as described in Notes 2 and 14. Fiscal responsibility for the University remains with the State of Arizona; therefore, the University is considered part of the State's reporting entity for financial reporting purposes.

The financial statements are presented in accordance with U.S. generally accepted accounting principles (GAAP) applicable to governmental colleges and universities engaged in business-type activities as adopted by the Governmental Accounting Standards Board (GASB). The University follows Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The University has chosen the option not to follow FASB Statements and Interpretations issued after November 30, 1989.

The component units are legally separate private nonprofit organizations that report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the component units' financial information included in the University's financial report. Accordingly, those financial statements have been reported on separate pages following the respective counterpart financial statements of the University.

The financial statements include a Statement of Net Assets; a Statement of Revenues, Expenses and Changes in Net Assets; and a Statement of Cash Flows.

John Sartin

- The Statement of Net Assets provides information about the assets, liabilities, and net assets of the University at June 30. Assets and liabilities are classified as either current or noncurrent. Current liabilities are obligations that will be paid within one year of the statement date and current assets are those resources available to satisfy current liabilities. Net assets are the residual amounts and are classified according to external donor restrictions and availability of assets to satisfy University obligations. Invested in capital assets, net of related debt, represents capital assets less accumulated depreciation and the amount of related outstanding debt for those assets. Nonexpendable restricted net assets are gifts received for endowment purposes and revolving student loan funds, the corpus of which cannot be expended. Expendable restricted net assets represent grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net assets include all other net assets, including those that have been designated by management to be used for other than general operating purposes.

- The Statement of Revenues, Expenses and Changes in Net Assets provides information about the University's financial activities during the year. Revenues and expenses are classified as either operating or nonoperating, and all changes in net assets are reported, including capital contributions and additions to endowments. Operating revenues and expenses generally result from providing instructional, research, public, and auxiliary services, which are consistent with the University's mission. Accordingly, revenues generated by the University for instruction, research and other activities are considered to be operating revenues. Other revenues, such as State appropriations and gifts, are not generated from operations and are reported as nonoperating revenues. Operating expenses include the cost of sales and services, administrative expenses, and depreciation of capital assets. Other expenses, such as interest expense on debt, are considered to be nonoperating expenses.

- The Statement of Cash Flows provides information about the University's sources and uses of cash and cash equivalents during the year. Increases and decreases in cash and cash equivalents are classified as operating, noncapital financing, capital and related financing, or investing activities.

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. The University eliminates all internal activity.

Significant Accounting Policies

The methods of applying GAAP that materially affect financial presentation are summarized below:

Cash and Investments

- Cash equivalents include all highly liquid investments with an original maturity of 90 days or less.
- Investments are stated at fair value at June 30. Fair value typically is the quoted market price for securities.
- Investment income includes interest and dividend earnings and changes in fair value of investments during the fiscal year from the investment of endowment, operating and trustee funds.

Endowment Spending Rate Policy – Arizona State law permits the University to expend the entire net appreciation of endowment fund investments. When determining the spending rate for endowment funds, the Investment Committee and University administration consider long- and short-term needs, total investment return and price level trends, and general economic conditions. For fiscal year 2007, the expendable rate was established at 4% of the three year average market value ending December 31, 2005. Donor restricted endowments that are available for expenditure are reported as restricted and expendable on the Statement of Net Assets.

Inventories – Inventories consist primarily of bookstore items and resale supplies. They are stated at the lower of cost (determined by the first-in, first-out or the weighted average method) or market.

Capital Assets, Special Collections and Historical Treasures

- Capital assets are stated at cost at the date of acquisition or, if donated, at fair market value at date received.
- The University maintains special collections and historical treasures for educational purposes and public exhibition. These special collections include Kress, Pfiefer, and Gallagher artwork, Ansel Adams, Richard Avedon, and Edward Westin photography collections, American Indians of the Southwest archeological collection, pottery whole vessel collection, and several medical and law book collections. They are not subject to disposal for financial gain or encumbrance. Accordingly, such collections are not capitalized for financial statement purposes but are inventoried for property control purposes.
- Interest incurred during the construction phase of projects is capitalized, net of interest earned on the invested proceeds over the same period.
- Capital assets, other than land and construction in progress, are depreciated over their estimated useful lives using the straight line method. The capitalization thresholds and estimated useful lives for capital assets of the University are as follows:

Asset Category	Capitalization Threshold ($)	Estimated Useful Life (yrs)
Infrastructure	100,000	20 - 100
Buildings and improvements	100,000	20 - 50
Equipment	5,000	3 - 25
Library materials	1	10
Land	1	n/a
Construction in progress	100,000	n/a

Scholarship Allowances – A scholarship allowance is the difference between the stated charge for tuition and fees and the amount paid by the student or third parties making payments on behalf of the student. Accordingly, some types of student financial aid such as fee waivers, Pell grants, and scholarship awards are considered to be scholarship allowances if used to pay tuition and residence fees. These allowances are netted against tuition and auxiliary revenues in the Statement of Revenues, Expenses and Changes in Net Assets.

Restricted and Unrestricted Resources – The University has both restricted and unrestricted resources available for most programs. Restricted resources are externally restricted for a specific purpose and primarily include sponsored research grants and contracts and gifts. The University's policy regarding whether to first apply restricted or unrestricted resources is made on a case-by-case basis. Restricted resources remain classified as such until spent.

John Sartin

NOTE 2. COMPONENT UNITS

The financial statements of the University include the operations of the University of Arizona Foundation, Inc., the University of Arizona Alumni Association, the Law College Association of the University of Arizona and the Campus Research Corporation, all discretely presented component units. For financial reporting purposes, only the statement of financial position and statement of activities are included in the University's financial statements as required by U.S. generally accepted accounting principles for public colleges and universities. Discretely presented component units are reported on separate pages following the University's respective counterpart financial statements because those component unit financial statements are prepared in accordance with non-governmental U.S. generally accepted accounting principles (i.e., FASB). Each discretely presented component unit discussed below has a June 30 year-end with the exception of the Law College Association which has a May 31 year-end.

Component units can be defined as legally separate entities for which the University is considered to be financially accountable. GASB Statement No. 14 – *The Financial Reporting Entity* has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the University to impose its will on that organization; or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the University. GASB Statement No. 39 – *Determining Whether Certain Organizations Are Component Units* provides additional criteria for determining whether certain organizations are component units. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should also be considered component units, with discrete presentation. These criteria are (1) the economic resources received or held by the separate organization are entirely or almost entirely for the

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direct benefit of the University, its component units, or its constituents; (2) the University or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the University, or its component units, is entitled to, or has the ability to otherwise access, are significant to the University.

Discretely Presented Component Units

The University of Arizona Foundation, Inc. (Foundation) is a legally separate, nonprofit, tax-exempt organization controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University through various fund-raising activities, and to contribute funds to the University in support of various programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources are significant to the University and can only be used by, or for the benefit of, the University or its constituents. As the University is also entitled to these resources, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are not publicly available. For information regarding the Foundation's financial statements, contact the University of Arizona Comptroller at the following address: University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

The University of Arizona Alumni Association (Alumni Association) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to serve the University and its graduates, former students, and friends by attracting, organizing and encouraging them to advance the University's missions – teaching, research, and public service. There is an Administrative Service Agreement between the Alumni Association and the University whereby the University provides staff, facilities and services to the Alumni Association and the Alumni Association agrees to provide an organizational framework for volunteer service and other activities to benefit and promote the University. As the economic resources held by the Alumni Association are significant to the University and are entirely or almost entirely for the direct benefit of the University, and as the University is entitled to a majority of the economic resources received or held by the Alumni Association, it is considered a component unit of the University and is discretely presented in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Alumni Association at the following address: Alumni Association, University of Arizona, P.O. Box 210109, Tucson, Arizona 85721-0109.

The Law College Association of the University of Arizona (Law Association) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to provide support and financial assistance to the College of Law at the University of Arizona. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships. The funds also provide support for various academic programs. As the economic resources held by the Law Association are significant to the University and are entirely or almost entirely for the direct benefit of the University, and as the University is entitled to a majority of the economic resources received or held by the Law Association, it is considered a component unit of the University and is discretely presented in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Law Association at the following address: Law College Association, University of Arizona, P.O. Box 210176, Tucson, Arizona 85721-0176.

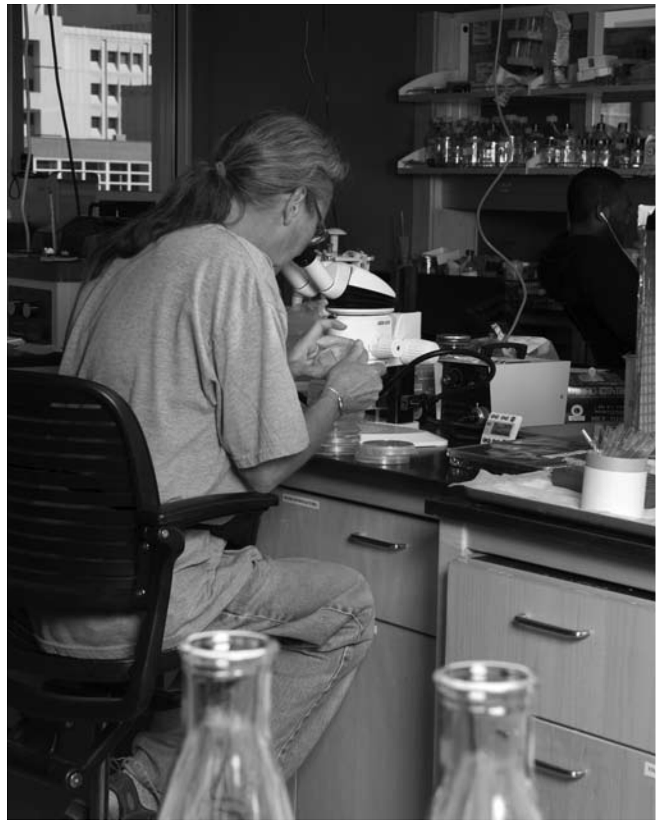
Campus Research Corporation (CRC) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement, and operation of the UA Science and Technology Park (Park) and related properties. CRC currently leases from the University the remaining 32% of building space of the Park not leased to the Arizona Research Park Authority. CRC is responsible for assisting in the development of the presently undeveloped portions of the Park and for subleasing unoccupied space, newly developed space, and space now occupied by IBM or its subtenants once the current subleases expire. The University is responsible for payment of the operational expenses associated with the space occupied by University departments, offices, and programs. All income received by CRC from its activities, after payment of expenses and financial reserves, will be distributed to the University. During fiscal year 2007, no funds were distributed to the University. As the University approves CRC's budget, fiscal dependency exists between the entities, making CRC a component unit. As CRC provides services to all tenants of the Park, not just the University, by acting as the property management company, CRC is presented as a discrete component unit in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Chief Financial Officer at the following address: University of Arizona Science and Technology Park, 9030 South Rita Road, Suite 302, Tucson, Arizona 85747.

NOTE 3. DEPOSITS & INVESTMENTS

A. General

At year end, the University's deposits totaled $10,253,000, while investments had a fair value of $539,300,000. In addition, under securities lending arrangements, the University held cash collateral investments of $79,306,000. These balances are considered in our analysis of deposit and investment risk. The required disclosures are included in sections B, C and D of this footnote.

Included in the University's deposits and investments are capital project funds totaling $35,194,000 which are held in trust by various commercial banks. Of this amount, $31,135,000 is available for future construction costs, and



Margaret Hartshorn

$4,059,000 is from bond proceed earnings for unrestricted purposes. Trust funds are invested in accordance with the Board's authorizing resolutions, as disclosed in section B of this footnote.

In addition, endowment funds make up a portion of the deposits and investments. These funds are primarily invested in the Consolidated Endowment Growth/Income Pool. Included within the pool are balances invested on behalf of the Arizona Student Financial Aid Trust (ASFAT). The University currently invests all funds for ASFAT, which was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. Funds invested for other universities are recorded as investments held for others and include the following at fair value: Arizona State University - $27,829,000 and Northern Arizona University - $10,818,000. The University's ASFAT funds are recorded as endowment investments at $20,088,000.

Also included within the endowment funds are certain endowments held by external trustees. At June 30, 2007, University endowments totaling $19,724,000 are held and invested by bank trustees according to donor specifications.

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These externally held endowments are further discussed in the custodial credit risk disclosure in section C of this footnote.

B. Statutory and Board of Regents' Policies

Arizona Revised Statutes require that deposits of the University, not covered by federal deposit insurance, be secured by government bonds or by a safekeeping receipt of the institution accepting the deposit. Further policy regarding deposits is provided by the Arizona Board of Regents. According to Board policy, deposits can be made only at depository banks approved by the Board.

The Statutes do not specifically address the investment policy of the University; rather Board of Regents' policy governs in this area. Board policy requires that the University arrange for the safekeeping of securities by a bank or other financial institution approved by the Board. Also under Board policy, the University is limited to investing its pooled operating funds and capital projects funds in collateralized certificates of deposit and repurchase agreements with commercial banks, United States Treasury securities and other Federal agency securities or in the government investment pool administered by the State Treasurer's Office.

With regard to endowments, Board of Regents' policy dictates that these funds are to be invested under the direction of an investment committee designated by the president of each university. At the University of Arizona, the investment committee is responsible for defining, developing, and implementing investment objectives, policies, and restrictions. However, if donors restrict investments, Board policy requires that the University invest those funds separately as directed by the donor, and the individual endowments bear all changes in value.

Neither the Statutes nor Board policies include any specific requirements for concentration of credit risk, interest rate risk, or foreign currency risk for investments of the universities.

C. Deposit & Investment Risk

Custodial Credit Risk:

University policy requires collateralization for all certificates of deposit, repurchase agreements and cash balances held in the controller's demand deposit account. Beyond this requirement and those established by Statute or the Board, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2007, $19,724,000 of the University's total deposits and investments is exposed to custodial credit risk as follows: some of the University's endowment funds are held by trustees. These deposits and securities are held by the counterparties in the names of the individual donors as irrevocable trusts for the benefit of the University.

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Credit Risk:

With regard to credit risk, University policy mirrors that of the Board in that it restricts investment of the operating and capital projects funds to collateralized certificates of deposit and repurchase agreements, United States Treasury securities and other Federal agency securities or the State Treasurer's investment pool. University policy also dictates that government debt securities must be used to collateralize certificates of deposit and repurchase agreements to conform to Statute. When investing endowment funds, University policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's Investor Service, at the time of purchase. The Moody's credit quality ratings for the University's investments in debt securities at June 30, 2007, are disclosed in the following table:

			Moody's				
Investment Type	**Fair Value**	**Not Rated**	**AAA**	**AA**	**A**	**BAA**	**BA**
State treasurer's pool	$ 753,000	753,000					
Federal agency securities	168,077,000		168,077,000				
Money market mutual funds	70,312,000	68,570,000	1,742,000				
Corporate bonds	26,151,000	3,487,000	6,098,000	6,192,000	5,382,000	4,834,000	158,000
International fixed income fund	11,344,000	11,344,000					
Other bond investments	4,820,000	754,000	2,917,000	632,000	517,000		
Totals	**$281,457,000**	**84,908,000**	**178,834,000**	**6,824,000**	**5,899,000**	**4,834,000**	**158,000**

Concentration of Credit Risk:

Other than United States Treasury securities and other Federal agency securities, which can represent greater than 5% of total investments, University policy limits investment in a single issuer to 5% or less of the fair value of the total portfolio. Save for those issuers allowed by policy, the University does not have an investment in any single issuer that exceeds 5% of the overall portfolio. At June 30, 2007, the University had investments in FHLB, FHLMC, and FNMA agency securities with a fair value of $61,797,000, $43,426,000, and $37,940,000 or 11.5%, 8.1% and 7.0% of total investments, respectively.

Interest Rate Risk:

The University's investment policy for the operating funds limits a significant proportion, although not a fixed percentage, of the portfolio to authorized securities with maturities of one year or less. Also, the maximum maturity of any fixed rate issue may not exceed three years and the final maturity of any floating rate issue may not exceed five years. The capital projects and endowment funds portfolios have no such limitation. The following chart presents the interest rate risk for the University's debt investments at June 30, 2007, utilizing the segmented time distribution method:

			Maturity Date			
Investment Type		**Fair Value**	**<1 Year**	**1-5 Years**	**6-10 Years**	**> 10 Years**
State treasurer's pool	$	753,000		753,000		
U.S. treasury securities		596,000		177,000	419,000	
Repurchase agreements		77,440,000	77,440,000			
Money market mutual funds		70,312,000	70,312,000			
Federal agency securities		163,830,000	63,335,000	79,272,000	8,232,000	12,991,000
Corporate bonds		26,151,000	3,097,000	11,673,000	5,044,000	6,337,000
International fixed income fund		11,344,000			11,344,000	
Other bond investments		4,820,000		1,840,000	640,000	2,340,000
	$	**355,246,000**	**214,184,000**	**93,715,000**	**25,679,000**	**21,668,000**

At June 30, 2007, the University held $163,830,000 or 30% of investments in Federal agency securities, including FHLB, FHLMC, FNMA, and FFCB, which may be considered to be highly sensitive to interest rate fluctuations.

Foreign Currency Risk:

University policy allows no more than 20% of the endowment fund portfolio to be invested in foreign-based companies. Other funds may not be invested in international securities. At June 30, 2007, the University held investments in two international mutual funds, Julius Baer Institutional International Equity Strategy Fund and Brandywine International Opportunistic Fixed Income Portfolio, for $28,932,000 (12%) and $11,344,000 (5%) of the endowment portfolio, respectively.

D. Securities Lending

During the fiscal year, the University engaged in securities lending transactions within the endowment funds, as authorized by the Board of Regents. The University entered into an agreement with Wells Fargo, the University's custodial bank, to carry out these transactions. The custodial bank enters into agreements with brokers to loan securities and have the same securities returned at a later date. It is the policy of Wells Fargo to receive as collateral at least 102% of the market value of the loaned securities and accrued interest, and maintain collateral at no less than 100% for the duration of the loan. At year end, the University has no credit risk to borrowers because the University was holding more collateral than the amount of loaned securities outstanding. The University records the collateral received as an asset, which is offset by an obligation recorded under securities lending. During the fiscal year ended June 30, 2007, there were no violations of legal or contractual provisions, and there were no borrower or lending agent default losses. Wells Fargo does indemnify the University against losses due to borrower defaults. Collateral can be received in the form of U.S. Government securities, letters of credit, or cash. As of June 30, 2007, the custodial bank has received only cash collateral. This collateral may be invested in United States Treasury and sponsored agency obligations, repurchase agreements, bankers' acceptances, commercial paper, mortgage-backed

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securities, municipal securities, and corporate bonds or in a cash collateral investment pool, which invests in similar securities. At June 30, 2007, cash collateral received from borrowers was invested in the Enhanced Yield Business Trust and the cash Collateral Investment Term Trust, which had a weighted average maturity of 15 days and 9 days, respectively, and represented 99% and 1% of cash collateral investments, respectively. The relationship between the maturities of the cash collateral investment pool and the University's securities loans is affected by the maturities of the securities loans made by other entities that use the custodial bank's pool, which the University cannot determine. However, the University or the borrower can terminate securities loans on demand. Other cash collateral investments are made such that their maturities will match those of the related securities loans. Such matching existed at year-end. At June 30, 2007, cash collateral investments totaled $79,306,000 while the market value of securities on loan was $77,522,000. Securities lent for cash collateral included corporate stocks and bonds, and U.S. government and agency notes and bonds. The University cannot sell or pledge any securities received as collateral unless the borrower defaults. The University earns a negotiated fee for participating in securities lending activities.

NOTE 4. JOINT VENTURE

The University is a participant in the Large Binocular Telescope Corporation (LBT). LBT was formally incorporated as a nonprofit corporation in August 1992 pursuant to a Memorandum of Understanding, as amended, executed on February 24, 1989, between the University and Arcetri Astrophysical Observatory in Florence, Italy (Arcetri). The purpose of the joint venture is to design, develop, construct, own, operate, and maintain a binocular telescope currently being constructed in Arizona. The current members of LBT are the University, Arcetri, Research Corporation, Ohio State University, and LBT Beteiligungsgesellschaft (LBTB).

The University has committed resources equivalent to 25% of LBT's construction costs and annual operating costs. As of June 30, 2007, the University has made cash contributions of $18,159,000 toward the project's construction costs. The University's financial interest represents future viewing/observation rights. Upon completion of construction, these rights will be divided among the participants in proportion to their contributions. According to the audited financial statements of LBT for the year ended December 31, 2006, assets, liabilities, revenues, and expenses totaled $118 million, $3 million, $11 million, and $4 million, respectively. For information regarding the LBT's financial statements, contact The University of Arizona Comptroller at the following address: University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007, was as follows:

	Beginning Balance July 1, 2006	Additions	Retirements	Transfers/ Reclasses	Ending Balance June 30, 2007
Land	$ 54,916,000	$ 4,436,000	$ (3,000)	$ 335,000	$ 59,684,000
Construction in progress	99,237,000	84,838,000		(134,922,000)	49,153,000
Total non-depreciable capital assets	$ 154,153,000	$ 89,274,000	$ (3,000)	$ (134,587,000)	$ 108,837,000
Buildings and improvements	$ 1,302,312,000	$ 30,208,000	$ (1,235,000)	$ 129,809,000	$ 1,461,094,000
Infrastructure	151,924,000	110,000	(223,000)	4,778,000	156,589,000
Equipment	377,502,000	34,293,000	(13,141,000)		398,654,000
Library materials	203,081,000	11,237,000	(3,659,000)		210,659,000
Total depreciable capital assets	$ 2,034,819,000	$ 75,848,000	$ (18,258,000)	$ 134,587,000	$ 2,226,996,000
Less: accumulated depreciation					
Buildings and improvements	$ 532,967,000	$ 48,362,000	$ (859,000)		$ 580,470,000
Infrastructure	47,265,000	6,133,000	(160,000)		53,238,000
Equipment	248,350,000	29,568,000	(11,660,000)		266,258,000
Library materials	157,818,000	9,936,000	(3,659,000)		164,095,000
Total accumulated depreciation	$ 986,400,000	$ 93,999,000	$ (16,338,000)		$ 1,064,061,000
Depreciable capital assets, net	$ 1,048,419,000	$ (18,151,000)	$ (1,920,000)	$ 134,587,000	$ 1,162,935,000
Capital assets, net	$ 1,202,572,000	$ 71,123,000	$ (1,923,000)	$ 0	$ 1,271,772,000

In addition to expenses through June 30, 2007, it is estimated that $125,996,000 will be required to complete projects under construction or planned for construction. Of that amount, $48,622,000 is contractually encumbered.

NOTE 6. DEFERRED REVENUE AND DEPOSITS

Deferred revenue consists primarily of amounts received from grants and contract sponsors which have not yet been earned under the terms of the agreements and the unamortized portion of the IBM lease (see discussion below) related to the acquisition of the University of Arizona Science and Technology Park (Park). Deferred revenue also includes amounts received in advance of an event, such as advance ticket sales for sporting events.

Arizona Research Park Authority (ARPA) was established under the State's industrial development authority statute to assist in the acquisition, improvement and operation of university research parks and related properties. In August 1994, ARPA sold $98 million of transferable special revenue bonds to International Business Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, the University of Arizona Science and Technology Park or the "Park"). The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides with the University and neither the Park nor any payments by the University secures ARPA's bonds. Since the original transaction, IBM has reduced its leasehold to 68% of the building space for periods up to the remaining term of 7 years. The University has recorded the value of the Park as a capital asset and is amortizing the associated deferred revenue over a 20 year period.

Deferred revenue and deposits at June 30, 2007, consist of the following:

Current Deferred Revenue and Deposits	
Unexpended cash advances received for sponsored programs	$ 36,128,000
Auxiliary sales and services	5,763,000
IBM lease related to the acquisition of the Park	4,900,000
Tuition and fees	5,039,000
Other deferred revenues	1,498,000
Deposits	1,497,000
Total current deferred revenue and deposits	$ 54,795,000
Noncurrent Deferred Revenue and Deposits	
IBM lease related to the acquisition of the Park	$ 29,870,000

NOTE 7. ACCRUED COMPENSATED ABSENCES

The University accrues vacation when earned. At fiscal year-end, the University accrued up to the maximum 22 days allowed by University policy for which an employee can be paid upon termination of employment. The University does not accrue sick time. Upon retirement, employees with a minimum of 500 hours of accumulated sick time are paid a formulated amount from the Retiree Accumulated Sick Leave (RASL) fund administered by the Arizona State Department of Administration. The University pays a percentage of its payroll to RASL annually and does not have further liability. Accrued compensated vacation for the year ended June 30, 2007, is displayed to the right:

Beginning balance	$ 33,498,000
Additions	38,680,000
Reductions	(38,571,000)
Ending balance	$ 33,607,000
Current portion	$ 1,371,000

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NOTE 8: LONG-TERM DEBT & LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2007, was as follows:

	Beginning Balance July 1, 2006	Additions	Reductions	Ending Balance June 30, 2007	Due Within One Year
Bonds payable	$ 283,445,000	$ 31,010,000	$ (17,440,000)	$ 297,015,000	$ 21,130,000
Certificates of participation	520,886,000	105,256,000	(109,135,000)	517,007,000	13,470,000
Capitalized lease obligations	34,162,000	26,546,000	(5,099,000)	55,609,000	6,464,000
Subtotal long-term debt	$ 838,493,000	$ 162,812,000	$(131,674,000)	$ 869,631,000	$ 41,064,000
Premium on sale of debt	19,356,000	979,000	(2,109,000)	18,226,000	1,380,000
Discount on sale of debt	(493,000)	(2,719,000)	52,000	(3,160,000)	(144,000)
Deferred costs of refundings	(14,968,000)	(3,923,000)	1,434,000	(17,457,000)	(1,595,000)
Total long-term debt	$ 842,388,000	$ 157,149,000	$(132,297,000)	$ 867,240,000	$ 40,705,000

Bonds – The University's bonded debt consists of various issues of system revenue bonds that are generally callable with interest payable semi-annually. Bond proceeds are used to pay for acquiring or constructing capital facilities and infrastructure. Bond proceeds are also used for refunding obligations from previously issued bonds. Payment of principal and interest on bonds is secured by a pledge of tuition and fees, sales and services, auxiliary enterprises, and other charges.

On April 12, 2007, the University sold System Revenue Bonds Series 2007 (2007 Bonds) for $31,010,000 dated April 1, 2007. The 2007 Bonds include $23,570,000 of serial bonds with interest rates ranging from 4.00% to 5.00% and maturity dates ranging from 2008 to 2028. The 2007 Bonds also include a term bond consisting of $7,440,000 with an interest rate of 4.375% due June 1, 2032. The 2007 Bonds with maturity on or after June 1, 2018, are subject to optional redemption without premium. The 2007 Bonds with maturity on June 1, 2032 are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2007 Bonds sold at a discount of $55,000. The University realized net proceeds of $30,600,000 after payment of $355,000 for issuance costs, underwriter discounts and bond insurance. The net proceeds were used to finance the Intercollegiate Athletics Facilities (ICA) Project, Law Commons Project, and the Residence Life Building Renewal Phase IIA and IIIA Project.

In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2007, the outstanding principal balance of the refunded bonds was $3,695,000, which will be paid by investments held in an irrevocable trust with a fair value of $3,745,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

In fiscal year 2005, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 1998 and the remaining portion of System Revenue Bonds Series 2000A. At June 30, 2007, the total outstanding principal balance of the refunded bonds was $28,285,000, which will be paid by investments held in an irrevocable trust with a total fair value of $29,307,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

The following schedule details outstanding bonds payable at June 30, 2007:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1992A – System Revenue Refunding Bonds	$ 55,490,000	2016	5.90-6.20%	$ 48,395,000
1998 – System Revenue Bonds	54,270,000	2018	4.375-5.25%	20,950,000
2002 – System Revenue Refunding Bonds	93,080,000	2011	3.75-5.25%	46,620,000
2003 – System Revenue Refunding Bonds	30,805,000	2024	3.50-5.00%	30,805,000
2004A – System Revenue Bonds	17,780,000	2029	3.50-5.00%	16,485,000
2004B – System Revenue Bonds	50,265,000	2034	3.00-5.00%	50,265,000
2005A – System Revenue Bonds	35,570,000	2031	3.00-5.00%	34,840,000
2006A – System Revenue Refunding Bonds	17,645,000	2020	5.00%	17,645,000
2007 – System Revenue Bonds	31,010,000	2032	4.00-5.00%	31,010,000
Total	$ 385,915,000			$ 297,015,000

The following schedule details debt service requirements to maturity for System Revenue Bonds payable at June 30, 2007:

Year	Principal	Interest
2008	$ 21,130,000	$ 14,763,000
2009	22,310,000	13,599,000
2010	23,385,000	12,498,000
2011	24,245,000	11,353,000
2012	12,365,000	10,139,000
2013-17	78,330,000	38,791,000
2018-22	55,925,000	20,873,000
2023-27	32,710,000	10,345,000
2028-32	24,050,000	3,793,000
2033-34	2,565,000	194,000
Total	$ 297,015,000	$ 136,348,000

Certificates of Participation - The University utilizes Certificates of Participation and various capital leases to acquire buildings, equipment and land. The Certificates are generally callable, and the capital leases are subject to prepayment.

On April 17, 2007, the University issued Refunding Certificates of Participation Series 2007A, 2007B, and 2007D (2007A-D Certificates) dated April 1, 2007 at a net discount of $1,684,000 as described below:

Series	Amount	Description	Interest Rate Range	Maturity Date Ranges
2007A	$12,035,000	Serial Certificates	3.50% to 4.50%	2009 to 2025
2007B	$50,150,000	Serial Certificates	4.00% to 4.50%	2010 to 2022
2007D	$42,895,000	Serial & Term Certificates	3.50% to 4.00%	2009 to 2031

The 2007D Certificates include three term certificates consisting of $7,440,000 due June 1, 2024, $8,370,000 due June 1, 2027, and $12,800,000 due June 1, 2031, all with an interest rate of 4.00%. The 2007A-D Certificates maturing on or after June 1, 2018, are subject to optional redemption prior to maturity without premium. The 2007D Certificates maturing on June 1, 2024, June 1, 2027 and June 1, 2031 are subject to mandatory sinking fund redemption in part on June 1 of the years 2022 through 2031 without premium. There are also extraordinary redemption dates pursuant to the debt documents.

The University realized net proceeds from the 2007A-D Certificates of $104,241,000 after payment of $1,300,000 for issuance costs, underwriter discounts and bond insurance. The University contributed $2,145,000 toward the refunding. The net proceeds and University's contributed funds were used for the following:

- Refund in advance a portion of the outstanding principal on the Certificates of Participation Series 2001A, 2001B and 2002A totaling $59,195,000. The advance-refunding generated a combined net present value economic gain of $2,060,000 (difference between the present values of the old debt and new debt service payments) for the University. The advance-refunding decreases the University's debt service by $1,548,000 in year one, $39,000 in year two, and $300,000 in year three. In addition, annual debt service decreases by an average of $27,000 in years four through ten and by an average of $4,000 in years eleven through nineteen. The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $3,315,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2025 using the straight-line method. The refunded Certificates of Participation Series 2001A, 2001B and 2002A will be paid by investments held in an irrevocable trust with a combined fair value of $61,139,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

- Current-refund the variable rate Certificates of Participation Series 2004B with an outstanding principal balance of $41,400,000. At the time of the refunding, the effective rate of the refunded 2004B variable rate Certificates was 3.69 percent and the maximum annual interest rate could not exceed 12 percent. Depending on what the future changes might have been in the variable rates of the refunded 2004B Certificates, the difference in debt service payments resulting from changes in variable interest rates compared to the 2007D Certificates' average fixed interest rate of 4.00% over the next 24 years is ($2,393,000) to $62,528,000. The difference between the present values of the old and new debt service payments results in a range of an economic loss of $107,000 to an economic gain of $3,254,000. The current refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $608,000. This difference, reported in the accompanying financial statements as a deduction from long-term debt, is being amortized to interest expense through the year 2031 using the straight-line method.

In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 2001B. At June 30, 2007, the outstanding principal balance for the Certificates of Participation Series 2001B was $4,645,000, which will be paid by investments held in an irrevocable trust with a fair market value of $4,675,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

In fiscal year 2005, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 1999 and 2001A. At June 30, 2007, the total outstanding principal balance for the Certificates of Participation Series 1999 and 2001A was $22,740,000, which will be paid by investments held in an irrevocable trust with a fair value of $23,563,000.

Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

In fiscal year 2006, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 1999A and 1999. At June 30, 2007, the total outstanding principal balance for the Certificates of Participation Series 1999A and 1999 was $3,290,000, which will be paid by investments held in an irrevocable trust with a fair value of $3,346,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.

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The following schedule details outstanding Certificates of Participation payable at June 30, 2007:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1999A Fixed Student Union Certificates	$ 21,607,000	2020	5.125-5.30%	$ 3,777,000
1999 Parking Garage, Res. Life Certificates	18,635,000	2009	5.00%	345,000
2001A Park Std. Union, Learning Svcs., 6th Street Garage, TEP Bldg.	31,695,000	2012	4.0-4.450%	3,565,000
2001B Gittings Bldg., Highland Infra., Life Sciences	21,425,000	2014	4.75-5.00%	2,185,000
2002A Student Housing, Health Bldg., UA North	76,965,000	2022	4.125-5.50%	23,580,000
2002B Meinel Bldg., Refund COPS 1994B	29,845,000	2023	3.10-5.125%	28,320,000
2003A Refund COPS 1997 & Portion of COPS 2001B	10,615,000	2022	3.50-5.00%	10,615,000
2003B Medical Research Bldg., Biomedical Sciences & Biotech Bldg., Technology Infrastructure	153,960,000	2031	2.623-5.25%	151,315,000
2004A Chemistry Bldg. Expansion, Res. Life Phase I, Highland Pkg. Garage, Refund COPS 1994A	42,020,000	2029	3.60-5.25%	39,380,000
2005A Refund COPS 1999A	12,660,000	2024	4.00-5.00%	12,660,000
2005B Refund COPS 1999	14,825,000	2024	5.00%	14,825,000
2005C Refund COPS 2001A	16,330,000	2022	4.125-5.00%	16,330,000
2005D Refund COPS 1999A & B	6,655,000	2020	4.125-5.00%	6,655,000
2005E Refund COPS 1999	3,555,000	2014	3.25-4.136%	3,555,000
2005F Refund COPS 2000A & 2001A	14,915,000	2025	3.50-4.50%	13,955,000
2005G Refund COPS 2001B, 2002A, & 2003A	2,245,000	2020	4.125-4.375%	2,245,000
2005H Refund COPS 2002B	770,000	2020	4.125-4.375%	770,000
2005I Refund COPS 2003B, 2004A	1,320,000	2020	4.125-4.375%	1,320,000
2006A Refund COPS 1999A & 1999B	35,785,000	2024	3.875-5.00%	35,785,000
2006B Refund COPS 2000A & 2001A	12,395,000	2025	3.625-4.50%	12,035,000
2006C Refund COPS 2001B, 2002A, & 2003A	6,100,000	2020	4.25-4.375%	6,100,000
2006D Refund COPS 2002B	1,285,000	2020	4.25-4.375%	1,285,000
2006E Refund COPS 2003B & 2004A	3,085,000	2020	4.25-4.375%	3,085,000
2006 Arizona Biomedical Research Collaborative Building Project	18,240,000	2031	4.00-5.00%	18,240,000
2007A Refund COPS 2001A	12,035,000	2025	3.50-4.50%	12,035,000
2007B Refund COPS 2001B & 2002A	50,150,000	2022	4.00-4.50%	50,150,000
2007D Refund COPS 2004B	42,895,000	2031	3.50-4.00%	42,895,000
Total	$ 662,012,000			$ 517,007,000

The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2007:

Year	Principal	Interest
2008	13,470,000	24,385,000
2009	14,060,000	23,434,000
2010	14,625,000	22,800,000
2011	15,705,000	22,180,000
2012	21,852,000	21,913,000
2013-17	129,499,000	92,421,000
2018-22	164,546,000	57,234,000
2023-27	89,450,000	23,702,000
2028-31	53,800,000	6,349,000
Total	$ 517,007,000	$ 294,418,000

Capital Leases – The University has entered into various long-term leases to acquire equipment and enhance fixtures and infrastructure. These leases are classified as capital leases since they provide a bargain purchase option, a transfer of ownership by the end of the lease term, or comply with other accounting criteria. Major capital leases entered into this fiscal year include a facility development sub-sublease with DAZ 4-PUHS, L.L.C. for $24,519,000. The lease payment structure allowed the use of New Market Tax Credits (NMTC), some benefits of which were passed on to the University. The lease interest rate is 6.59% through March 29, 2015. From March 30, 2015 through June 30, 2036, the lease payments will be reduced (due to NMTC benefits) and the interest rate is projected to be 6.21%. Approximately 10% of the lease payment ($140,100 in year one) is subject to escalation based on the Consumer Price Index. In addition, a lease for a Supercomputer for the Center for Computing Information Technology (CCIT) was entered into with G.E. Capital Public Finance, Inc. for $1,037,000, with an interest rate of 4.62%, and a final payment date of July 15, 2009.

The following schedule details debt service requirements to maturity for capital leases payable at June 30, 2007:

Year	Capital Lease Payments
2008	$ 9,023,000
2009	6,094,000
2010	5,199,000
2011	4,987,000
2012	4,721,000
2013-17	17,590,000
2018-22	13,429,000
2023-27	13,296,000
2028-32	13,489,000
2033-36	5,205,000
Total minimum lease payments	93,033,000
Less: interest	(37,424,000)
Present value of net minimum lease payments	$ 55,609,000


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Capital Assets Financing - Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2007:

Land	$ 5,684,000
Buildings and improvements	495,331,000
Infrastructure	53,762,000
Equipment	24,792,000
Total cost of assets	579,569,000
Less: accumulated depreciation	(88,796,000)
Carrying value of assets	$ 490,773,000

Operating Leases - The University has entered into certain operating leases, generally with options for annual renewal, and other rental agreements for real property and equipment. For fiscal year 2007, rent expenses totaled $20,709,000.

The following schedule details future operating lease payments to maturity:

Year	Operating Lease Payments
2008	$ 3,995,000
2009	3,356,000
2010	2,087,000
2011	833,000
2012	619,000
Total	$ 10,890,000

NOTE 9. SELF-INSURANCE PROGRAM

The University is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in a self-insurance program administered by the State of Arizona Department of Administration, Risk Management Section. Arizona Revised Statutes §41-621 et seq provides that losses eligible for coverage and not covered by insurance will be paid by the State from the self-insurance program or by a future appropriation from the State Legislature. Loss risks not covered by Risk Management and for which the University has no insurance coverage are losses that arise from contractual breaches, or are directly attributable to an act or omission determined to be a felony by a court of law. With this exception, the University has no significant risk of loss beyond adjustments to future years' premium payments to the State's self-insurance program. All estimated losses for unsettled claims and actions of the State are determined on an actuarial basis and are included in the State of Arizona Comprehensive Annual Financial Report.

NOTE 10. RETIREMENT PLANS

The University participates in one cost-sharing multiple-employer defined benefit pension plan and four defined contribution pension plans.

A. Defined Benefit Plan

Plan Description. The Arizona State Retirement System (ASRS) administers a cost-sharing multiple-employer defined benefit pension plan that covers employees of the University. Benefits are established by State statute and provide retirement, death, long-term disability, survivor, and health insurance premium benefits. The ASRS is governed by the Arizona State Retirement System Board according to the provisions of ARS Title 38, Chapter 5, Article 2. The ASRS issues a publicly available comprehensive annual financial report that includes its financial statements and required supplementary information. That report may be obtained by writing to the ASRS, 3300 North Central Avenue, PO Box 33910, Phoenix, Arizona 85067-3910, or by calling (602) 240-2000 or (800) 621-3778.

Funding Policy. For the year ended June 30, 2007, active ASRS members and the University were each required to contribute 9.1 percent (8.6 percent retirement and .5 percent long term disability) of the members' annual covered payroll. The University's portion of contributions to the ASRS for the years ended June 30, 2007, 2006, and 2005, was $25,538,000, $19,420,000, and $14,179,000, respectively, which equaled the required contributions for the year. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates.

B. Defined Contribution Plans

Plan Description. In accordance with ARS §15-1628, University faculty, academic professionals, and administrative officers have the option to participate in defined contribution pension plans. For the year ended June 30, 2007, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF), Variable Annuity Life Insurance Company (VALIC), and Fidelity Investments Tax-Exempt Services Company (Fidelity) were approved by the Arizona Board of Regents. In addition, employees hired before July 1, 1972, have the option to participate in the defined contribution plan administered by the ASRS. Benefits under these plans depend solely on the contributed amounts and the returns earned on investments of those contributions. Contributions made by members vest immediately; University contributions vest after five years of full-time employment.

Contributions to the defined contribution plans for the year ended June 30, 2007, were as follows:

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	$ 13,631,000	$ 13,631,000	$27,262,000
VALIC	788,000	788,000	1,576,000
Fidelity	5,679,000	5,679,000	11,358,000
ASRS	100,000	85,000	185,000

Member and University contributions and associated returns earned on investments may be withdrawn upon termination of employment, death, or retirement. The distribution of member contributions and associated investment earnings are made in accordance with the member's contract with the applicable insurance and annuity company.

Funding Policy. The Arizona State Legislature establishes the contribution rates for active plan members and the University. For the year ended June 30, 2007, plan members and the University were each required by statute to contribute an amount equal to 7 percent of a member's compensation, except for an 8.16 percent University contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2007, are described in the table on page 42.

NOTE 11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2007, consist of the following:

Category	
Salaries and wages	$ 651,536,000
Benefits	187,203,000
Supplies and materials	117,423,000
Services, including travel	159,569,000
Utilities	39,663,000
Scholarships and fellowships	35,394,000
Depreciation	93,999,000
Total operating expenses	$ 1,284,787,000

NOTE 12. CONTINGENT LIABILITIES

In August 2003, four University of Arizona (UA) students filed a lawsuit against the Arizona Board of Regents (ABOR) and the State in Pima County, Arizona Superior Court. The complaint alleged that the tuition increase approved by ABOR for the 2003-04 academic year violated the State's Constitution. In March 2004, the Superior Court granted a motion by ABOR and the State to dismiss the case. In March 2004, the plaintiffs filed a notice of appeal with the Arizona Court of Appeals. In November 2006, the Arizona Court of Appeals issued its decision reversing the Superior Court's decision to dismiss with respect to ABOR and remanding the case back to the Superior Court. ABOR filed a petition for review by the Arizona Supreme Court. On August 9, 2007, the Supreme Court issued its decision in support of ABOR and agreed with ABOR that the question of whether the tuition increase ran afoul of the "as nearly free as possible" clause in the State Constitution is a nonjusticiable political question and that the Superior Court had properly dismissed the students' claims against ABOR.

In February 2004, two cases were filed arising from the same set of circumstances that lists a variety of causes of action based upon alleged violations of cultural and religious privacy and violations of human subjects research protocols. The Havasupai Tribe and 73 of its members have asserted claims against ABOR and others arising out of a research project initiated by Arizona State University (ASU) in the early 1990s. Allegations are made respecting both ASU and the UA, the latter being based upon the facts that one of the researchers moved to the UA while the research was continuing and that UA faculty members were involved in certain aspects of the research. The plaintiffs assert a variety of legal theories based on the contention that blood samples donated by members of the Tribe were used for purposes other than those described to the Tribe and the participants prior to the initiation of the research. The individual plaintiffs seek $10 million in compensatory damages and $15 million in punitive damages. The operative complaint by the Tribe seeks unspecified amounts of compensatory and punitive damages. The claims for punitive damages against ABOR have been dismissed. By orders of April 30 and August 28, 2007, the Maricopa County Superior Court granted summary judgement against both the Tribe and the individuals. All plaintiffs have filed notices of appeal. The State of Arizona Attorney General's Office is providing legal representation for the universities. Management is not able to predict at this time what the ultimate outcome of the case will be or how the case may affect the financial condition of the University. It is anticipated that an adverse judgement in the litigation described above would be covered by the statutory self-insurance program under the Risk Management Section of the State of Arizona Department of Administration.

In September 2004, an action was filed by Kaman Aerospace Corporation (Kaman) alleging counts of breach of contract, negligent misrepresentation, unjust enrichment and quantum merit. This action arises out of a $35 million contract between the University and a large aerospace technology company for the production of an optical collimator apparatus. Under the contract, the University subcontracted $12.8 million of the work to Kaman. A number of disputes subsequently arose between Kaman and the University related to the scope of Kaman's work. Thereafter, Kaman abandoned its performance of the subcontract and initiated a lawsuit against the University in Arizona Superior Court seeking approximately $6 million for extra work claimed. The University retained outside counsel, counterclaimed against Kaman for breach of contract and abandoning performance, and sought damages for the cost of completing Kaman's work. The University is completing the rest of the work originally subcontracted to Kaman with its own personnel. A jury trial resulted in a verdict in favor of Kaman on its breach of contract claim, but awarded no damages. The jury found against the University on its breach of contract counterclaim. ABOR appealed the judgement entered on the jury's verdicts to the Arizona Court of Appeals. The Court of Appeals, on August 23, 2007, reversed the judgement in favor of Kaman on its breach of contract claim, but left undisturbed the judgement entered against the University on its breach of contract counterclaim. The University filed a Motion to Reconsider with the Court of Appeals on September 7, 2007, asking that it modify its opinion to the extent it upholds the judgement against the University on its breach of contract counterclaim. If its Motion to Reconsider is denied, the University may seek further review with the Arizona Supreme Court. The University is unable to predict the final outcome of this lawsuit or how the case may affect the financial condition of the University. An adverse judgement in the litigation described above would not be covered by the statutory self-insurance program under the Risk Management Section of the State of Arizona Department of Administration.

NOTE 13. SUBSEQUENT EVENTS

On August 17, 2007 the University of Arizona and KB Home Incorporated completed an equal value land exchange in which the University transferred approximately 124 acres of land located at the UA Science and Technology Park valued at $12,424,000 to KB Home. In return, the University received the following: approximately 53.5 acres of land located near Interstate I-10 and Kino Parkway valued at $8,739,000 and an option to purchase an additional 11.5 acres; an exemption on the University's share of the construction costs (estimated to be $3,416,000) associated with a new arterial roadway and certain infrastructure improvements in the Science and Technology Park; and a cash payment of $269,000. The University intends to use the newly acquired property to develop a second research park to facilitate commercialization of the University's biosciences technology. Associated with this land exchange, the University and KB Home entered into a Pre-annexation and Development Agreement and Intergovernmental Agreement with the City of Tucson for the annexation of a portion of the Science and Technology Park. As a component of the annexation agreement, the University will provide a 5.5 acre parcel to the City of Tucson for location of a fire station and water facilities at the Science and Technology Park.

On October 24, 2007, the University entered into an interest rate exchange agreement with JP Morgan Chase Bank, National Association. The agreement is for System Revenue Bonds (SRBs) in the amount of $25,400,000. The purpose of the agreement is to lock in a fixed interest rate of 4.02% for the SRBs, which the University anticipates issuing in December 2007 to fund the Student Recreation Center Expansion Project. The effective date for the agreement is February 1, 2008 and will terminate on June 1, 2040.

NOTE 14. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

A. Summary of Significant Accounting Policies

University of Arizona Foundation

Basis of Accounting

For financial reporting purposes, three net asset categories are utilized to reflect resources according to the existence or lack thereof of externally (donor) imposed restrictions. A description of the three net asset categories follows.

- Unrestricted net assets – include assets and contributions that are not restricted by donors or for which such restrictions have expired.
- Temporarily restricted net assets – include contributions for which donor imposed restrictions have not been met (either by the passage of time or by actions of the Foundation), charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. Donor-restricted contributions are classified as temporarily restricted even if restrictions are satisfied in the same reporting period in which the contributions are received.
- Permanently restricted net assets – include contributions, charitable remainder unitrusts, pooled income funds, gift annuities, and pledges receivable which require by donor restriction that the corpus be invested in perpetuity. Included in permanently restricted net assets is the Foundation's Endowment, which is invested in accordance with the policies of the Foundation as established from time to time by its Board of Directors. Realized and unrealized gains and losses on endowment assets are classified as permanently restricted, as management believes such classification is consistent with either the explicit or implicit wishes of the donors.

  The Endowment Payout, a percentage (4% of the average fair value at the calendar year-end of the three previous years) of the fair value of the Endowment as determined from time to time by the Foundation's Board, is made available to support the purposes of the individual accounts comprising the Endowment as specified by the donors. The Foundation charges a fee, a percentage (1.25% in 2007) of the fair value of the Endowment as determined from time to time by the Foundation's Board, which is paid from the Endowment to defray the Foundation's costs of holding, managing and stewarding the Endowment, including costs for safeguarding, investing and accounting for such funds. The Foundation has historically made the Endowment Payout available whether or not the fair value of an individual account exceeded its historic gift value, as management believed such policy was consistent with the wishes of the donor. The majority of donors have formally affirmed this policy.

Cash and Cash Equivalents
Cash and cash equivalents include monies held in certificates of deposit, overnight money market accounts, and money market funds. Cash equivalents are stated at cost which approximates fair value.

Investments in Securities
Investments in securities are stated at fair value. Investments in domestic and international equity securities and mutual funds, U.S. government and agency obligations and mutual funds, corporate bonds, REIT funds and international fixed income mutual funds are valued based on quoted market prices. Investments in real estate and timber partnerships are recorded at fair value as determined by the General Partner based on the appraised value of the Partnerships' assets. Absolute return limited partnership interests are recorded at fair value based on quoted market prices (where the underlying investment is a mutual fund) or as determined by the fund manager. Private capital and commodity limited partnership interests are recorded at fair value as determined by the fund manager. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, less an investment management fee.

Collections
The foundation capitalized donated collections (principally photographs, prints and negatives) at their appraised fair value on the donation date through June 30, 2006. Collections donated after that date are recorded at a nominal value. The accompanying statement of activities includes the cumulative effect of the change in accounting principle to remove the fair value of collections previously capitalized both from other assets and net assets at that date.

Annuities Payable and Other Trust Liabilities
Annuities payable and other trust liabilities of $21,347,000 at June 30, 2007 are stated at the actuarially computed present value of future payments to the annuitants. The excess of the fair values of assets received (classified according to their nature in the statement of financial position) pursuant to annuity agreements over the actuarially computed annuities payable (using market rates in effect on the contribution date) is recorded as contributions in the year received. The fair values of such assets held in trust at June 30, 2007 total $41,220,000, of which $2,893,000 were unrestricted, $15,821,000 were temporarily restricted and $22,506,000 were permanently restricted.

Net Assets Released From Restriction
Expenses are not incurred in the temporarily restricted or permanently restricted net asset categories. As the restrictions on these net assets are met, the assets are reclassified to unrestricted net assets. The total assets reclassified are reported as net assets released from restriction in the accompanying statement of activities.

Campus Research Corporation

Property, Equipment and Depreciation
Property and equipment are stated at cost and depreciation is provided for using the straight-line method over the estimated useful lives of the assets. Expenditures for major improvements to property are capitalized and expenditures for repairs and maintenance are expensed as incurred. The Organization has recorded in the financial statements a building and related debt for which the ABOR on behalf of UA holds the title to the building, under the requirements of a lease.

B. Investments

University of Arizona Foundation
Investments are comprised of the following amounts at June 30, 2007:

	Fair Value	Cost
Domestic/international equity securities and mutual funds	$ 163,032,000	$ 126,925,000
U.S. fixed income obligations and mutual funds	64,621,000	65,878,000
Absolute return limited partnerships and funds	83,766,000	69,479,000
REIT fund, real estate and timber partnerships	18,876,000	17,885,000
International fixed income mutual funds	18,027,000	18,732,000
Private capital and commodity limited partnerships and mutual funds	13,074,000	12,426,000
	$ 361,396,000	$ 311,325,000

C. Pledges Receivable

University of Arizona Foundation
Unconditional promises are included in the financial statements as pledges receivable and revenue of the appropriate net asset category. Unconditional promises are recorded at their net realizable value using yields on U.S. Treasury obligations of equivalent maturity dates at the end of the fiscal year in which they were received. Unconditional promises at June 30, 2007 totaled $24,683,000.

Law College Association
At May 31, 2007, the Association had unconditional promises to give pledged for future support. Net of present value discounts and allowances for doubtful pledges, these unconditional promises totaled $29,516,000. Note that 91% of the Association's gross pledges receivable come from an individual donor.

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D. Property and Equipment

Campus Research Corporation

Property and equipment consisted of the following as of June 30, 2007:

Building and infrastructure improvements	$ 13,212,000
Furniture, equipment and other property	622,000
Total	13,834,000
Less accumulated depreciation	(2,407,000)
Property and equipment, net	$ 11,427,000

E. Long-Term Debt

Campus Research Corporation

Bonds payable, Series A, payable in scheduled monthly installments of principal plus interest at the floating taxable bond rate (remarketed weekly) through May 2013, with a lump sum payment of $6,491,000 due in June 2013.	$ 7,509,000
Non interest bearing note payable, Arizona Commerce and Economic Development Commission, payable in monthly principal installments of $2,000 through April 2016, unsecured.	196,000
Note payable, Wells Fargo Bank, payable in monthly installments of $22,000 including interest at 7.25% through June 2010.	721,000
Note payable, Wells Fargo Bank, payable in monthly installments of $26,000 including interest at 5% through June 2015. There is a prepayment penalty associated with this note if the entire balance is paid prior to July 2009.	2,111,000
Total long-term debt	$ 10,537,000

The bonds and notes payable to Wells Fargo Bank are collateralized by leasehold interests in real property and an assignment of rents and require the Organization to be in compliance with certain financial and nonfinancial covenants. At June 30, 2007, the Organization was in violation of certain financial covenants, which the bank has subsequently waived.

Wells Fargo Bank Arizona issued an $11,400,000 letter of credit to enhance the sale of the bonds and the Organization entered into a reimbursement agreement with the bank, which provides real property as collateral to the bank. The letter of credit is renewed annually in July at the outstanding bond amount plus 45 days of interest.

The Series A bonds payable bear interest at a market rate of interest as stated above. However, the Organization entered into an interest rate swap contract with Wells Fargo that effectively converts the interest rate on the Series A bonds to 6.3%. Under the swap contract, the Organization pays interest at the fixed rate and receives interest at LIBOR (proxy rate), which was 5.36% at June 30, 2007. The notional amount

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under the swap decreases as principal payments are made on the bonds so that the notional amount equals the principal outstanding under the bonds.

The swap was issued at market terms so that it had no fair value at inception. As required by U.S. generally accepted accounting principles, the carrying amount of the swap has been adjusted to fair value at June 30, 2007 which, because of changes forecasted in levels of LIBOR, resulted in reporting a liability for the fair value of the future net payments forecasted under the swap. The change in fair value is recorded as a component of the change in net assets for 2007 and the liability is included in the balance sheet at June 30, 2007.

F. Project Operation Agreement (POA):

Campus Research Corporation

The Organization has an agreement with IBM whereby all common services at the Park are to be provided by the Managing Operator, which is currently IBM. Common services consist of the operation, maintenance and repair of the central utility system, project fire and security services, and the common areas. The term of the agreement coincides with the IBM master lease agreement that expires in August 2014. Exercise of the contractual extensions contained within the IBM master lease agreement will extend the POA according to the terms of the lease agreement.

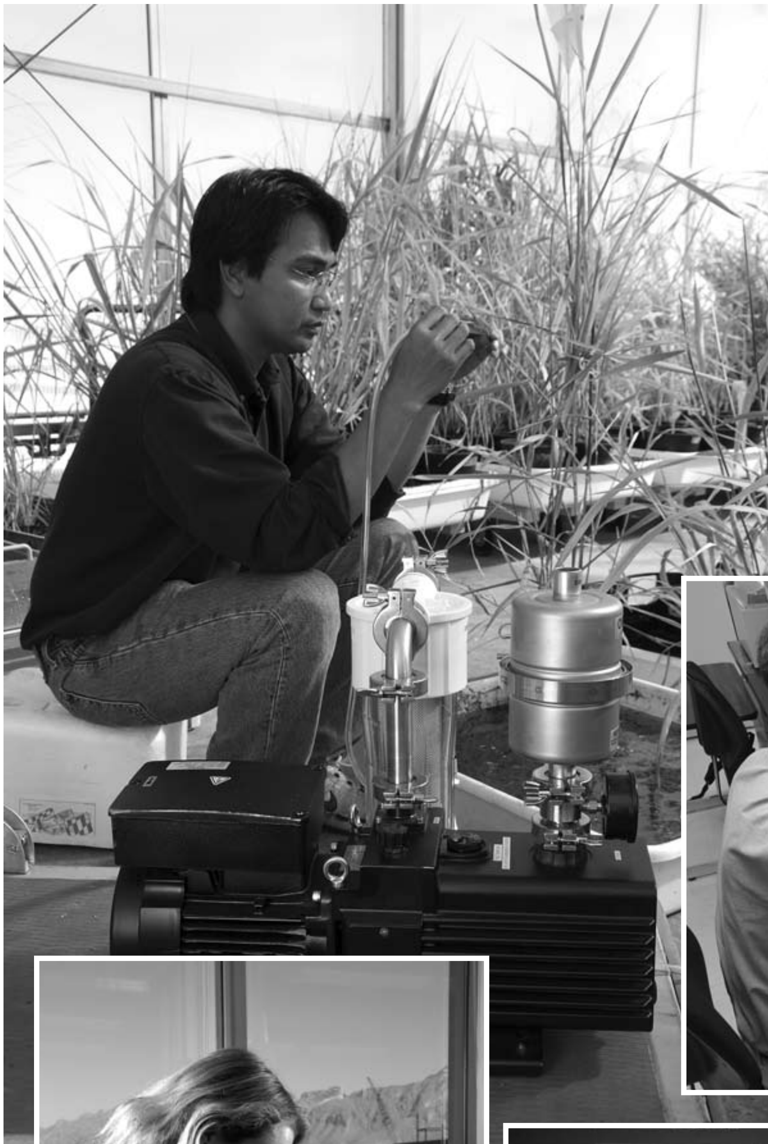
In October 2004, the Organization issued a notice of default to IBM asserting that IBM is not complying with the terms of the POA in its responsibility to maintain the Park. The lack of maintenance has caused a significant increase in the Organization's repairs and maintenance costs necessary to maintain the building systems and infrastructure at a minimum acceptable level. The incurrence of such costs has contributed to the Organization's overall decrease in net assets during 2007 and has placed at risk the Organization's ability to attract new tenants and retain existing tenants. Furthermore, IBM is in default with an additional term of the POA that requires IBM to provide evidence of insurance coverage for the structures to all lessees of the Park. Accordingly, the Organization and the Parks' tenants do not know if the current insurance coverage is sufficient in the event of a loss.

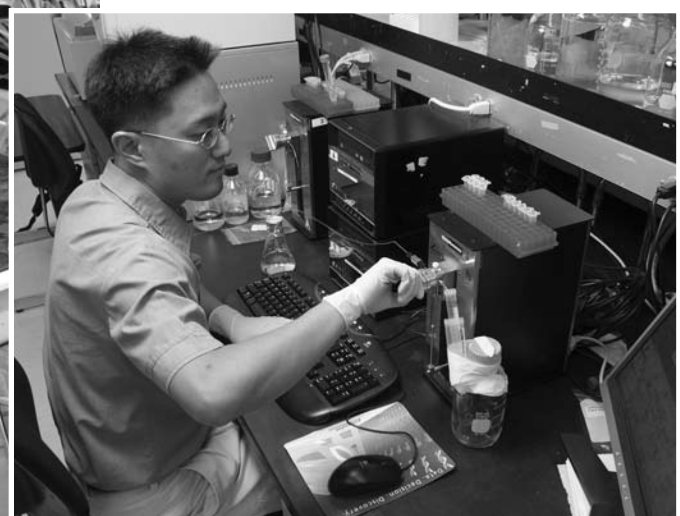
The Organization's management continues to communicate with IBM regarding its obligations and the Organization's expectation. No legal proceedings have yet commenced. However, should IBM not commit to meet the requirements set forth in the POA, management intends to proceed with legal action to enforce the provisions of the POA.

G. Condensed Financial Statements of Major Component Units

Major Component Units Statement of Financial Position June 30, 2007	University of Arizona Foundation	Other Component Units	Total
Assets			
Cash, cash equivalents and investments	$ 435,834,000	$ 16,597,000	$ 452,431,000
Pledges receivable	24,683,000	29,516,000	54,199,000
Property and equipment, net	3,980,000	11,592,000	15,572,000
Other assets	4,580,000	7,765,000	12,345,000
Total Assets	**$ 469,077,000**	**$ 65,470,000**	**$ 534,547,000**
Liabilities and Net Assets			
Liabilities			
Annuities payable and other trust liabilities	$ 21,347,000		$ 21,347,000
Short-term and long-term debt		$ 10,559,000	10,559,000
Other liabilities	2,839,000	6,197,000	9,036,000
Total Liabilities	**$ 24,186,000**	**$ 16,756,000**	**$ 40,942,000**
Net Assets			
Unrestricted	$ 15,712,000	$ 12,072,000	$ 27,784,000
Temporarily restricted	120,364,000	33,289,000	153,653,000
Permanently restricted	308,815,000	3,353,000	312,168,000
Total Net Assets	**$ 444,891,000**	**$ 48,714,000**	**$ 493,605,000**
Total Liabilities and Net Assets	**$ 469,077,000**	**$ 65,470,000**	**$ 534,547,000**

Major Component Units Statement of Activities Year Ended June 30, 2007	University of Arizona Foundation	Other Component Units	Total
Revenues			
Contributions	$ 60,094,000	$ 4,604,000	$ 64,698,000
Rental revenues		7,829,000	7,829,000
Investment income	44,163,000	1,253,000	45,416,000
Other income	10,711,000	4,071,000	14,782,000
Total revenues	**$ 114,968,000**	**$ 17,757,000**	**$ 132,725,000**
Expenses			
Program services:			
Leasing related expenses		$ 6,680,000	$ 6,680,000
Payments to the University	$ 32,994,000		32,994,000
Payments on behalf of the University	13,100,000	7,016,000	20,116,000
Supporting services:			
Management and general	4,070,000	1,753,000	5,823,000
Fund raising	4,938,000	172,000	5,110,000
Other expenses		93,000	93,000
Total expenses	**$ 55,102,000**	**$ 15,714,000**	**$ 70,816,000**
Increase in Net Assets	**$ 59,866,000**	**$ 2,043,000**	**$ 61,909,000**
Net Assets - Beginning of year	396,254,000	46,671,000	442,925,000
Cummulative effect of accounting changes	(11,229,000)		(11,229,000)
Net Assets - End of year	**$ 444,891,000**	**$ 48,714,000**	**$ 493,605,000**





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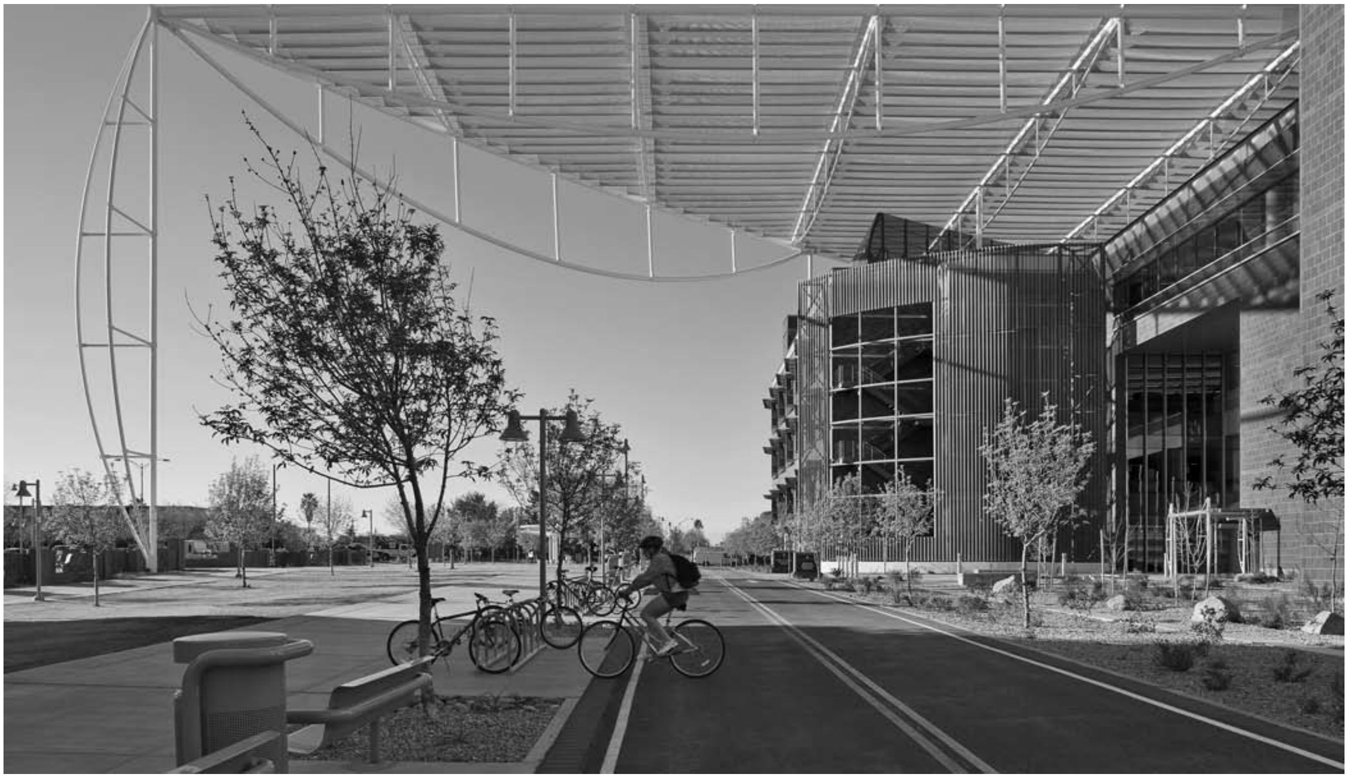

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