

# Annual Financial Report

*Year Ended  
June 30, 2009*





## Mission:

To discover, educate, serve and inspire

The University of Arizona is a premier, student-centered research institution. Established in 1885 as the first university in the Arizona Territory and the state's only land grant institution, the University of Arizona embraces its threefold mission of excellence in teaching, research and public service. Now in its second century of service to the state, the University of Arizona has become one of the nation's top 20 public research institutions.





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## Cover:

INSTRUCTION: *Courtesy of UA College of Optical Sciences*

RESEARCH: The research focus of Biosphere 2 is studying the impact of climate change, particularly on water patterns. *Courtesy of J. Martinez / The University of Arizona – Biosphere 2*

PUBLIC SERVICE: Community Health Action on Wheels is a program of the UA College of Medicine Department of Family & Community Medicine.

## Inside Front Cover:

Student Union Memorial Center, *Courtesy of Jeff Smith*

PUBLIC SERVICE: 2009 Optics Summer Camp, *Courtesy of UA College of Optical Sciences*

INSTRUCTION: Arizona Softball coach Mike Candrea with Lauren Schutzler, *Courtesy of J&L*

RESEARCH: Donna Zhang, assistant professor of Pharmacology and Toxicology in the College of Pharmacy, is developing synthetic reagents and dietary supplements that will reduce the incidence of cancer. *Courtesy of UA College of Pharmacy*



## A Message from the President

Fiscal Year 2009 was a challenging one for the University of Arizona. The economic downturn in the state resulted in a \$75.9 million cut in the University of Arizona's state general fund appropriation, a reduction of more than 17 percent. Despite this dramatic loss of state funding, prudent and strong fiscal management, along with federal stimulus funds, allowed us to make forward progress as a University.

A critical component of the University's financial planning was embarking upon a transformation process before the full extent of Arizona's budget deficit was known. The Transformation Plan was launched because we recognized that the status quo would no longer work: we could not achieve our aspirations with either our current funding or operational models.

Programmatic and administrative restructuring and consolidations were designed to make the University of Arizona better. Being better means serving more students and making their academic experience richer; hiring and retaining the very best faculty in the world; and engaging in research that will transform our understanding of the world, and in outreach that will make life better for all the citizens of Arizona.

Working through the Transformation Plan in FY 2009 was greatly enhanced by Arizona Governor Jan Brewer's important and timely decision to apply for and effectively distribute the State Fiscal Stabilization Fund (SFSF) from the American Recovery and Reinvestment Act. These funds enabled us to move through this stage of the financial crisis without permanent, crippling damage.

SFSF allowed the University, with the approval of the Arizona Board of Regents, to implement a significantly reduced tuition surcharge, thus mitigating substantially the tuition increase for FY 2010 that our students would otherwise have incurred. SFSF support also enabled us to fulfill our overall mission, providing to our students the educational programs and academic support they need. The University's SFSF allocation also helped preserve over 200 full-time equivalent positions as well as avoid other reductions in services that would have weakened the performance of our missions, and also caused further economic damage to the state.

The relief that the federal stimulus funds provide, while one-time in nature, has allowed us to move forward with important upgrades to our infrastructure. These will benefit the University for decades to come, and chief among these is the \$30 million portion of the replacement of what is a seriously antiquated computing system.

Despite the difficult economic climate, there is great reason to be optimistic about the University's future. Private gifts have provided critical funds. For example, our Arizona Assurance program, which provides free tuition, room and board, reached 600 eligible students last year and an additional 750 this year. This is an extraordinary achievement for the University, and greatly increases the opportunities for social mobility among those students from families with the lowest incomes in our state.

The University of Arizona's popularity as a university of choice meant that in Fall 2009, we welcomed our largest Freshman class in history, at just under 7,000 students. This is our most diverse class ever, with more than 41.1 percent of our Arizona freshmen coming from ethnic minority groups, an important achievement in a state where only 32 percent of college-eligible high school graduates in the state come from minority and under-represented families. This is also our strongest class ever, with more students in the top achievement bands, which are used to predict academic success.



Our students, at the undergraduate and graduate levels, embrace how the University integrates its educational, research, and outreach missions. Four UA graduate students, working through the Early Academic Outreach Office's GEAR UP Project, have helped give voice to high school students interested in learning new media and developing their writing skills. Rachel Lewis, Michael Sheehan, César Diaz, and Susan Meyers led the Fresh Ink program in Sunnyside and Desert View High Schools, providing instruction to help high school freshmen develop 21st century literacy skills, teach them how to develop personal digital stories – which combine audio and visual storytelling – and how to create blogs.

On the research front, the University of Arizona in Tucson became the home of a \$13 million Energy Frontier Research Center, or EFRC. Funded by a competitively awarded federal stimulus grant, the work of the EFRC, led by Chemistry Professor Neal R. Armstrong, could one day lead to "Generation III" photovoltaic materials thin enough, flexible enough and inexpensive enough to go not only on rooftops but in windows, outdoor awnings and even clothing.

Arizona Cancer Center physician and scientist Karen Weihs has been awarded a grant totaling nearly \$3.7 million from the National Cancer Institute. The research grant will enable Weihs to study emotion and depression in breast cancer survivorship. Beginning in 2010, the five-year study will enroll 450 women with newly diagnosed breast cancer, monitoring the women closely through their treatment and survivorship.

UA's educational, research, and outreach missions are aligned in the work of College of Education faculty, who received U.S. Department of Education grants collectively worth nearly \$1.5 million to run two separate programs. Jane Erin, a UA special education, rehabilitation and school psychology professor, received an \$800,000 grant to prepare teachers in the Southwest to become teachers of students with visual impairments and orientation and mobility specialists. Carl Liaupsin, a UA associate professor for special education, rehabilitation and school psychology, is the principal investigator of a grant for nearly \$650,000 in funding. Their program will train doctoral degree candidates to become new professors at other universities who will specialize in the area of emotional and behavioral disorders.

During fiscal year 2009, the Office of Technology Transfer generated approximately \$690,000 in licensing income and executed a total of 63 Major Agreements compared to 47 in fiscal year 2008. The University received 127 technically- and administratively-complete invention disclosures from faculty and staff, up 27 percent from the prior year.

These are but a few examples of the University of Arizona's achievement in FY 2009. They demonstrate that UA is poised to continue its advance into the top ranks of America's research universities. We draw strength from our commitment to access, quality and discovery, assuring Arizona families that their children will have the opportunity to experience a student-centered research education that is among the best in the world.

Sincerely,

Robert N. Shelton



## 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 38,057 students through 19 colleges offering 347 degree programs and is ranked among the leading research universities in the country.

### Enrollment Statistics – Academic Year 2008 - 2009

|  |          |
|--|----------|
| Undergraduate enrollment – Fall 2008                     | 29,719   |
| Graduate enrollment – Fall 2008                          | 8,338    |
| Degrees awarded – Bachelor's                             | 5,612    |
| Degrees awarded – Advanced                               | 2,195    |
| Tuition and fees for full-time student<br>– Resident     | \$5,542  |
| Tuition and fees for full-time student<br>– Non-resident | \$18,676 |

The University's 2,436 full time equivalent faculty and 1,267 full time equivalent graduate teaching and research assistants and associates educate a diverse student population. The student population is 52.5% female, 16% Hispanic, 6.8% Asian or Pacific Islander, 3.3% Black and 2.8% Native American. It includes students from all fifty states and 117 foreign countries. International students totaled 6.1% of the Fall 2008 enrollment, with the largest numbers of foreign students hailing from the People's Republic of China, India, Korea, Mexico and Taiwan.

### 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 research universities in the nation (15th 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.
- In 2008, 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 was 15th, and it was ranked as the nation's 23rd institution among all public and private universities and colleges.
- The UA's School of Information Resources and Library Science received a grant of more than \$910,000 from the Institute of Museum and Library Services. The federal grant means more University of Arizona students working in underserved libraries and museums in Arizona and across the nation will be certified in digital information management. The funding goes to the UA school's "Promoting Diversity in the Digital Curation Disciplines" project, which promotes enrollments in the



RESEARCH: Walt Klimecki, assistant professor of Pharmacology and Toxicology in the College of Pharmacy, researches how people's genes and environment affect their health. *Courtesy of UA College of Pharmacy*

- digital information management, or "DigIn," graduate certificate program.
- As of June 30, 2009, the University of Arizona had received American Recovery and Reinvestment Act (ARRA) awards totaling \$21.6 million. The UA submitted more than 300 proposals in response to ARRA funding opportunities.
- The Arizona Cancer Center has received a five-year, \$20.8 million grant from the National Cancer Institute (NCI) to renew support for its cancer research programs through 2014. The grant renewal, which came with an "excellent" rating, also extends the Cancer Center's designation as one of 40 comprehensive cancer centers in the United States, and the only NCI-designated comprehensive cancer center headquartered in Arizona. The Arizona Cancer Center at the University of Arizona has operated continuously with NCI support, or "core" grants, since 1978, when the cancer center received a \$1 million federal award.
- Science Foundation Arizona announced that it is investing \$4 million in five new solar technology initiatives and opening the Solar Technology Institute (STI). STI is a collaborative effort to deploy Arizona's significant solar resources with industry and the research strengths of the University of Arizona and Arizona State University. STI will enhance the state's global leadership in renewable energy.
- 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 make the University a world center for astronomy and planetary sciences, joined in cooperative projects with Germany, Italy and the Vatican. Its reputation will be enhanced by the international astrophysical observatory on Mt. Graham, and by recent international prominence gained from University designed and built instruments.



INSTRUCTION: Peter H. Smith giving a Phoenix Mars Lander presentation. *Courtesy of UA College of Optical Sciences*

- The University of Arizona Press and three other university presses have been awarded a collaborative publishing grant of more than \$1 million from the prestigious Andrew W. Mellon Foundation to publish books in the underserved and emerging field of indigenous studies. With this assistance, the UA Press will reinforce the vitality of a growing field that encompasses such critical topics as cultural and political sovereignty, the value of traditional knowledge, and ethnic identity.
- The University has established a position of archaeological leadership in the Southwest setting based on the research of past cultures in Arizona. 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 their rich cultures, but also to assist these communities in their economic and educational development.
- Astronomy and archaeology provided the intellectual basis for the development of a new science, dendrochronology. The study of tree rings as indicators of past environments, dendrochronology is of increasing importance in identifying worldwide environmental trends.
- The University's location near the international boundary with Mexico, and the special social, economic, legal and political circumstances of the border zone, provide the

UA with outstanding educational, research and service opportunities in various Hispanic language, literature, and cultural programs.

- The U.S. Army has awarded a second \$2 million to University of Arizona Professor Jerzy Rozenblit to fund phase 2 of a project to design intelligent software that can analyze the behavior and customs of political and cultural groups. In 2007, the Army awarded Rozenblit \$2 million to fund the recently completed phase 1 of the Asymmetric Threat Response and Analysis Project, known as ATRAP. The ATRAP software will enable intelligence analysts to build three-dimensional maps of interactions among conflicting groups. By mapping behavior, relationships, resources, events and timelines, analysts hope ultimately to predict, and therefore prevent, eruptions of violence.

## 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.

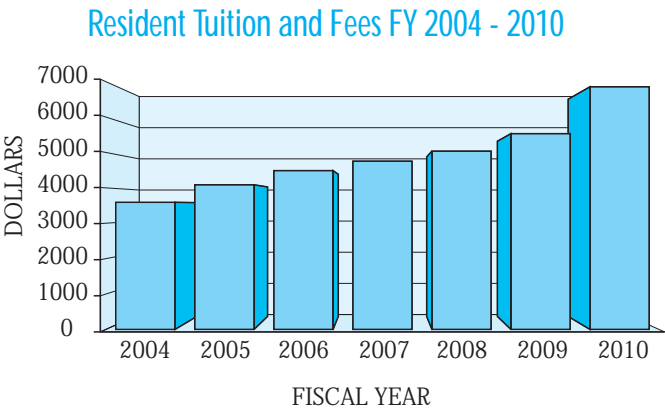
Management continues to regard the University as well positioned to continue its sound financial condition and service to students, patients, the research community, citizens of Arizona and our country. Future successes are largely dependent upon cost containment, the ability to recruit and retain the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

The University has been 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, medicine). The University has been aggressive in applying for ARRA funds from the NIH and NSF as well as various other federal agencies.



For instructional purposes the University is primarily 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 decline (or the State alters the tax base that supports government services), appropriated funds may increase slowly or be reduced dependent upon the ebb and flow of sales tax revenues. Since resident tuition continues to be among the lowest of our peer public universities in the nation, there are opportunities to increase tuition, as long as financial aid resources also increase.

The Arizona Board of Regents approved a mandatory tuition surcharge in April 2009. The tuition surcharge is an economic recovery surcharge used for University programs and infrastructure most essential to student success. The approved annual amount is \$766 and is reflected in the graph at right showing Arizona resident tuition and fees by year. For non-resident students, the surcharge is \$966. This tuition surcharge is currently set to expire June 2010. The original request of \$1,100 for Arizona resident students was lowered to the approved amount after it was determined that anticipated funding from the American Recovery and Reinvestment Act State Fiscal Stabilization Fund would mitigate the level of the economic recovery surcharge needed.



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 continues to project rapid growth in college enrollment over the next several 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.



**PUBLIC SERVICE:** Continuous-chest-compression resuscitation training is just one of the public education efforts of the UA Sarver Heart Center. *Courtesy of Andi Berlin, UA College of Pharmacy.*

# 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, 2009, 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, 2009, 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, 2009, 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.

2910 NORTH 44<sup>TH</sup> STREET • SUITE 410 • PHOENIX, ARIZONA 85018 • (602) 553-0333 • FAX (602) 553-0051



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.

Debbie Davenport  
Auditor General

October 28, 2009

# 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, 2009. Information for the year ended June 30, 2008, 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, nonoperating revenues include state appropriations, nonexchange grants, gifts and investment income. 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.

Current receivables at June 30, 2009 totaled \$185.5 million, including \$60.8 million in federal fiscal stabilization funds and \$39.5 million in fiscal 2009 State of Arizona general fund appropriations. The University applied to the Governor of Arizona for federal fiscal stabilization funds during fiscal 2009. These funds were used to support and administer instructional units and to support student services. The federal fiscal stabilization funds were received in August 2009. The funding source for the stabilization funds is the American Recovery and Reinvestment Act.

Due to cash flow constraints in the State of Arizona, the University did not receive general fund appropriations in May and June 2009. The University received the rollover appropriations on September 30, 2009. The revenue associated with these rollover appropriations was recorded as fiscal 2009 state appropriations.



RESEARCH: Randy Lutz, Manager of the Steward Observatory Mirror Lab Casting group, installing the last of the 1020 individual hexagonal columns for the 6.5 meter diameter mirror casting mold. The finished mirror will be installed in a new telescope to be built at San Pedro Mártir, Baja California, Mexico.  
*Courtesy of Ray Bertram, Steward Observatory*



## Condensed Financial Statement Information

### SUMMARIZED SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS

A summarized comparison of the University's assets, liabilities and net assets (in thousands of dollars) at June 30, 2009, and at June 30, 2008, is as follows:

|   | 2009                | 2008                | % Change   |
|---|---------------------|---------------------|------------|
| Other assets                                    | \$ 843,677          | \$ 682,650          | 24%        |
| Capital assets                                  | 1,339,428           | 1,313,658           | 2%         |
| <b>Total assets</b>                             | <b>\$ 2,183,105</b> | <b>\$ 1,996,308</b> | <b>9%</b>  |
| Other liabilities                               | \$ 154,427          | \$ 139,697          | 11%        |
| Long-term liabilities                           | 1,147,501           | 985,249             | 16%        |
| <b>Total liabilities</b>                        | <b>\$ 1,301,928</b> | <b>\$ 1,124,946</b> | <b>16%</b> |
| Net assets                                      |                     |                     |            |
| Invested in capital assets, net of related debt | \$ 466,674          | \$ 460,964          | 1%         |
| Restricted - nonexpendable                      | 94,307              | 94,610              | 0%         |
| Restricted - expendable                         | 140,375             | 158,554             | -11%       |
| Unrestricted                                    | 179,821             | 157,234             | 14%        |
| <b>Total net assets</b>                         | <b>\$ 881,177</b>   | <b>\$ 871,362</b>   | <b>1%</b>  |

The University's financial position continued to improve in fiscal year 2009. Net assets increased by \$9.8 million primarily due to the receipt of federal stimulus funds and increased tuition revenues, contracts and grants activity, and restricted gift donations.

#### Assets and Liabilities

Other assets consist of cash and cash equivalents, investments, receivables, inventories and deferred expenses.

Other liabilities consist primarily of trade accounts payable, accrued payroll and benefits, and the current portions of deferred revenues and funds held for others.

During fiscal year 2009, the University continued its position in cash and cash equivalents to maximize investment income by extending duration to capture higher interest rates. The University recorded receivables for state appropriations for May and June 2009 as well as Federal stimulus funds granted to the University but not received until fiscal year 2010.

#### Net Assets

The large decrease in restricted expendable net assets comes from the net effect of recognition of a decline in the market value of endowment investments coupled with offsetting revenues from sponsored agreements and several large gifts to the University. Net investment in capital assets increased due to spending for leasehold improvements, new and ongoing construction projects, and equipment acquisitions.

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.

## SUMMARIZED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

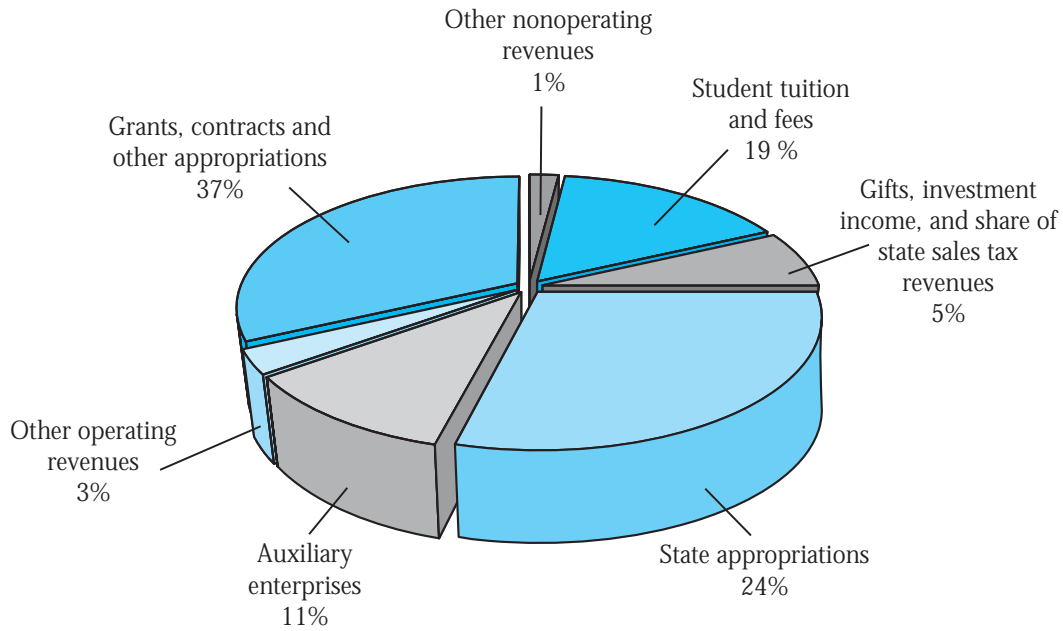
A summarized comparison of the University's operations (in thousands of dollars) for the year ended June 30, 2009, and for the year ended June 30, 2008, is as follows:

|  | 2009                | 2008                | % Change      |
|--|---------------------|---------------------|---------------|
| Total revenues                                       |                     |                     |               |
| Student tuition and fees                             | \$ 269,447          | \$ 231,536          | 16%           |
| Grants, contracts and other appropriations           | 526,965             | 446,519             | 18%           |
| State appropriations                                 | 348,941             | 416,658             | -16%          |
| Auxiliary enterprises                                | 154,698             | 154,112             | 0%            |
| Share of State sales tax revenues                    | 22,547              | 28,360              | -20%          |
| Gifts  | 78,156              | 71,348              | 10%           |
| Investment income                                    | (19,749)            | 4,176               | -573%         |
| Other operating revenues                             | 40,292              | 39,695              | 2%            |
| Other nonoperating revenues                          | 15,393              | 30,565              | -50%          |
| <b>Total revenues</b>                                | <b>\$ 1,436,690</b> | <b>\$ 1,422,969</b> | <b>1%</b>     |
| Total expenses                                       |                     |                     |               |
| Instruction and academic support                     | \$ 462,941          | \$ 448,672          | 3%            |
| Research and public service                          | 455,310             | 445,455             | 2%            |
| Student services and scholarships                    | 74,896              | 71,006              | 5%            |
| Institutional support and operation of plant         | 168,375             | 171,058             | -2%           |
| Auxiliary enterprises                                | 144,707             | 140,785             | 3%            |
| Depreciation   | 99,657              | 98,084              | 2%            |
| Interest expense on debt                             | 40,887              | 41,121              | -1%           |
| Other nonoperating expenses                          | 5,218               | 5,877               | -11%          |
| <b>Total expenses</b>                                | <b>\$ 1,451,991</b> | <b>\$ 1,422,058</b> | <b>2%</b>     |
| <b>Income before capital and endowment additions</b> | <b>\$ (15,301)</b>  | <b>\$ 911</b>       | <b>-1780%</b> |
| Capital and endowment additions                      | 25,116              | 41,968              | -40%          |
| <b>Increase in net assets</b>                        | <b>\$ 9,815</b>     | <b>\$ 42,879</b>    | <b>-77%</b>   |
| <b>Net assets, beginning of year</b>                 | <b>871,362</b>      | <b>828,483</b>      | <b>5%</b>     |
| <b>Net assets, end of year</b>                       | <b>\$ 881,177</b>   | <b>\$ 871,362</b>   | <b>1%</b>     |

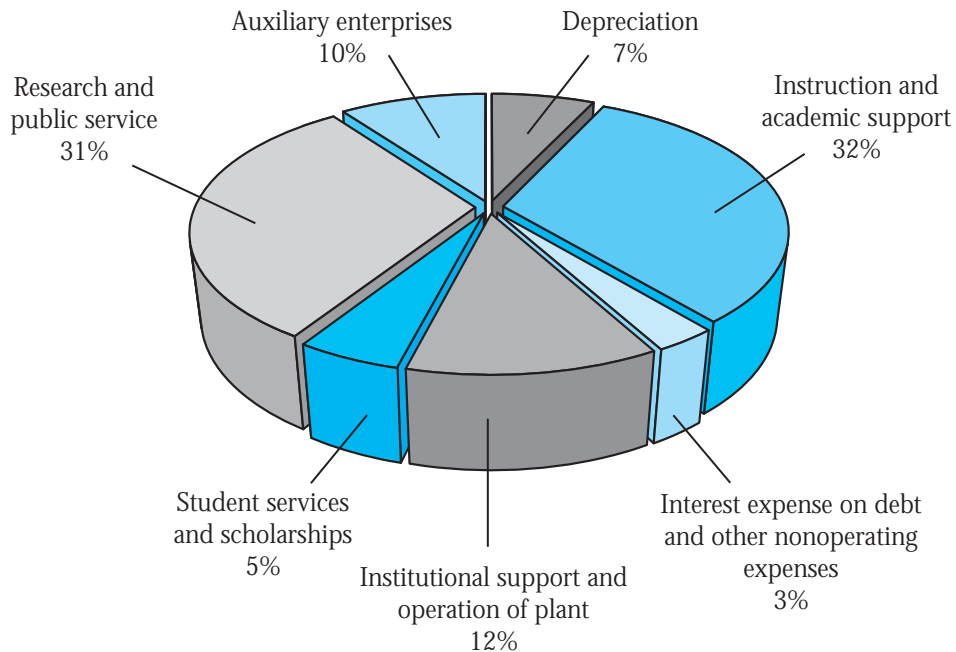


The following graphs illustrate operating and nonoperating revenues and expenses for the year ended June 30, 2009.

### Operating and Nonoperating Revenues



### Operating and Nonoperating Expenses



## Operating and Nonoperating Revenues

**Student tuition and fees:** Tuition and fees rose by \$37.9 million due to increased tuition. In-state undergraduate resident tuition and fees increased by \$494, or 9.8%, to \$5,542, while out-of-state undergraduate tuition and fees increased by \$2,394, or 14.7%, to \$18,676.

### Grants, contracts and other appropriations:

- **Operating federal grants and contracts:** Revenues increased by \$6.8 million or 2% in fiscal year 2009. 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.
- **Nonoperating government and nongovernment grants and appropriations:** Non-exchange grants and appropriations increased from \$65 million in 2008 to \$131 million in FY 2009, an increase of 102%, primarily due to State Fiscal Stabilization Funds (SFSF) from the Federal American Recovery and Reinvestment Act (ARRA).

**State Appropriations:** Appropriations, including the University's share of state sales taxes, decreased from \$445 million to \$371 million, a decrease of \$74 million over the prior fiscal year. The decrease of 17% in state appropriations and sales tax revenues is related to the national recession and decreased sales tax revenues for the State. A capital appropriation for Research Infrastructure Capital Financing was received in the amount of \$14 million to pay debt service charges for research buildings constructed in previous fiscal years.

**Gifts:** Revenues from gifts increased 10% from \$71.3 million to \$78.1 million primarily due to increased giving to support the College of Medicine.

**Investment income:** Pooled operating funds are invested in short term instruments. The net decrease is the result of a declining interest rate environment and reduced average account balance in comparison to the previous year. Due to the fact that deposits with the trustee for capital projects are invested in short-term debt instruments, interest is dependent upon the current interest rate environment. Interest rates between fiscal year 2008 and fiscal year 2009 declined, resulting in lower interest income. Participation in public markets generated a loss in the Growth and Income Pool over the past year, due to an overall decline in global equity and debt markets.

| (in thousands of dollars)                   | 2009               | 2008            |
|---|--------------------|-----------------|
| Pooled operating funds                      | \$ 14,486          | \$ 21,264       |
| Deposits with trustees for capital projects | 1,438              | 1,820           |
| Endowments                                  | (35,673)           | (18,908)        |
| Total investment income                     | <u>\$ (19,749)</u> | <u>\$ 4,176</u> |

**Other nonoperating revenues:** Revenues decreased to \$15.4 million from the prior fiscal year amount of \$30.5 million. The reduction resulted from a one-time gain on land development activities in fiscal year 2008.

## Nonoperating Expenses

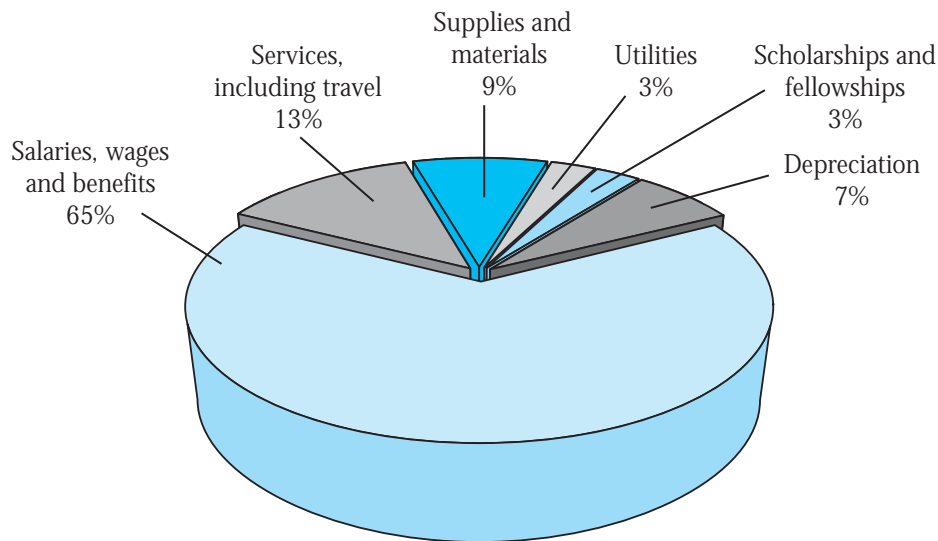
- Interest expense on debt decreased by 1% from \$41.1 million in 2008 to \$40.8 million in 2009 due to an increase in capitalized interest on construction projects in the current fiscal year.
- Other nonoperating expenses decreased from \$5.9 million to \$5.2 million. This was an 11% decrease.

## Operating Expenses

In addition to programmatic (functional) classification of operating expenses, a summary of the University's expenses by natural classification (in thousands of dollars) as listed in Note 11 for the years ended June 30, 2009 and 2008 follows:

| <b>Natural Classification of Operating Expenses:</b> | <b>2009</b>         | <b>2008</b>         | <b>% Change</b> |
|--|---------------------|---------------------|-----------------|
| Salaries, wages and benefits                         | \$ 921,237          | \$ 898,364          | 3%              |
| Supplies and materials                               | 122,877             | 125,906             | -2%             |
| Services, including travel                           | 179,139             | 172,222             | 4%              |
| Utilities  | 40,831              | 42,107              | -3%             |
| Scholarships and fellowships                         | 42,145              | 38,377              | 10%             |
| Depreciation   | 99,657              | 98,084              | 2%              |
| <b>Total Operating Expenses</b>                      | <b>\$ 1,405,886</b> | <b>\$ 1,375,060</b> | <b>2%</b>       |

### Natural Classification of Operating Expenses for the year ended June 30, 2009



Operating expenses were \$1.406 billion for the fiscal year ending June 30, 2009. This was an increase over the previous fiscal year of \$30.8 million, or 2%. Expenses increased primarily due to increases in salaries and wages (1.6%), benefits (5.7%), services (4%), scholarships (9.8%) and depreciation expenses (1.6%). 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 3% for the fiscal year, from \$898 million to \$921 million.
- **Scholarships and Fellowships** increased 10% from \$38 million to \$42 million to keep pace with increased tuition and fees.
- **Utilities** decreased by \$1.3 million to \$40.8 million as a result of cost cutting measures.



## Capital and Debt Analysis

The University of Arizona manages its buildings and infrastructure capital through a comprehensive Capital Improvement Plan (CIP) as required by Arizona Revised Statutes §41-793 and Arizona Board of Regents (ABOR) policy 7-106. The CIP outlines the University's current capital funding allocations; building renewal and deferred maintenance funding requirements; offices and facilities leases; building inventory; status of current construction projects; and capital planning for a three-year period to address deficiencies in academic, research and support service space; management of building renewal and deferred maintenance projects; and expansion of student dormitory and parking capacities. New projects presented in the CIP include project descriptions, justifications, and funding sources for construction and operating and maintenance costs. The CIP also includes the Annual Assessment of Debt Capacity report, which provides current debt information and demonstrates the University's ability to issue debt instruments to finance capital acquisitions. By utilizing the CIP, management is able to assess and strategically plan for capital acquisitions to meet short term and long term space requirements.

In fiscal year 2008-09, the University completed construction of the following projects:

- **Intercollegiate Athletic Indoor Practice Facility:** This project provides additional practice facilities for the men's and women's basketball and volleyball teams to alleviate overcrowded conditions and scheduling problems in the McKale Memorial Center.
- **Hillenbrand Deep Diving Well:** This project expanded the diving pool to meet demands and today's competition requirements for the diving team.
- **University Terrace Apartment Renovation:** This project converted a two-story residential apartment building into office space for Women's Studies.
- **Glen G. Curtis Building:** This renovation project provides additional offices and laboratories for the College of Agriculture and Life Sciences at the Yuma Agricultural Center.
- **Law College – Legal Info Commons:** This project is part of the James E. Rogers College of Law's long-range plan to enhance its reputation as a top-tier law college

by modernizing the library, providing additional and improved space for student activities and organizations, increasing space for visiting faculty and scholars, modernizing instructional space while integrating technology, and fundamentally transforming the experiential character of the facility.

The foregoing capital projects were constructed at a total cost of \$43.2 million and provide an additional 174,600 gross square feet to support research, academic, student athletic disciplines and administrative services. The University received financial support from generous donors for three of the five projects. In addition to the major projects listed above, the University expended \$5.1 million to complete several minor renovation projects to enhance academic buildings, research laboratories, and student services buildings. Building renewal and deferred maintenance projects are critical for life safety issues and extend the useful lives of the buildings and facilities. During Fiscal year 2008-09, the University invested \$13.7 million in building renewal and deferred maintenance projects.

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 amount of debt the University is able to issue is limited by State law (Arizona Revised Statutes §15-1683) and ABOR policy 7-102(D)(3) using a debt ratio limit. The debt ratio limit established by ABOR policy and State law is 8% (total SRBs and COPs debt service to total operating expenses and debt service). At June 30, 2009 the University's debt ratio was 5.2%. The University's credit ratings on System Revenue Bonds are Aa3 by Moody's and AA by Standard and Poor's.

During fiscal year 2008-09, the University issued System Revenue Bonds Series (SRBs) 2009A for \$202.4 million. The SRBs 2009A were issued to finance the Sixth Street Residence Halls Project, the Residence Life Building Renewal Phase 3 and 4 Projects, and fund interest payments until the projects are completed. Detailed debt issuance and debt service information is available in Note 8 of the accompanying notes to the financial statements.

## Economic Outlook

As more and more positive economic data on the national economy trickles in, the accepted view has become almost universal that the United States recession, which started in 2007, may finally be coming to an end. The State of Arizona continues to experience weak economic conditions, which resulted in a negative effect on the State's revenue projections and ultimately forced budget rescissions for the University of Arizona (\$75.9 million) during FY 2009. Further reductions in State general fund appropriations to the University have been incorporated into the University's current operating budget for FY 2010. If the national economy continues to sputter, it is anticipated that State revenues will continue to decline as well in FY 2010, thereby forcing additional budget rescissions in the current year.

The University of Arizona continuously evaluates programmatic and institutional changes necessary to serve as a center for advanced graduate and professional studies while emphasizing research and providing excellence in undergraduate programs. University management has been diligently working 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.

The University requested and received approval from the Arizona Board of Regents to increase tuition this past fiscal year. Due to the magnitude of the budget rescissions, management requested and received approval for a one-year tuition surcharge on top of the newly approved tuition rates for FY 2010. The Tuition Surcharge is an economic recovery surcharge that will be used for University programs and infrastructure most essential to student success. Due to increased financial needs to attract and retain talented faculty and staff, maintain existing facilities and provide a world-class education, it is the intention of management to continue requests to increase tuition 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.



**PUBLIC SERVICE:** Camp Wildcat is a non-profit organization run entirely by UA students, who raise money, organize about 10 free camping adventures or other outings a year and pal around with challenged middle-school students, helping them realize that college can be their path to a brighter future.

# Statement of Net Assets

June 30, 2009 (in thousands of dollars)

## Assets

### Current assets

|  |                   |
|--|-------------------|
| Cash and cash equivalents (Note 3)               | \$ 151,087        |
| Short-term investments (Note 3)                  | 26,451            |
| Receivables:                                     |                   |
| Accounts receivable (net of allowances of \$759) | 26,780            |
| Receivable from the State of Arizona:            |                   |
| Federal fiscal stabilization funds               | 60,824            |
| State general fund appropriation rollover        | 39,461            |
| University collections fund                      | 3,719             |
| Government grants receivable                     | 53,616            |
| Student loans (net of allowances of \$251)       | 1,068             |
| Inventories                                      | 9,665             |
| Deferred expenses                                | 1,166             |
| <b>Total current assets</b>                      | <b>\$ 373,837</b> |

### Noncurrent assets

|   |                     |
|---|---------------------|
| Restricted cash and cash equivalents (Note 3)           | \$ 17,983           |
| Restricted investments with bond trustees (Note 3)      | 189,199             |
| Long-term investments (Notes 3 and 4)                   | 52,453              |
| Restricted investments held for others (Note 3)         | 32,512              |
| Endowment investments (Note 3)                          | 144,585             |
| Student loans receivable (net of allowances of \$1,834) | 13,273              |
| Long-term receivables                                   | 8,959               |
| Deferred expenses                                       | 10,876              |
| Capital assets, not being depreciated (Note 5)          | 160,689             |
| Capital assets, being depreciated, net (Note 5)         | 1,178,739           |
| <b>Total noncurrent assets</b>                          | <b>\$ 1,809,268</b> |
| <b>Total Assets</b>                                     | <b>\$ 2,183,105</b> |

## Liabilities

### Current liabilities

|  |                   |
|--|-------------------|
| Accounts payable                           | \$ 48,886         |
| Accrued payroll and benefits               | 43,791            |
| Accrued compensated absences (Note 7)      | 6,430             |
| Deferred revenue and deposits (Note 6)     | 64,211            |
| Funds held for others                      | 2,439             |
| Current portion of long-term debt (Note 8) |                   |
| Funded by University revenues              | 37,186            |
| Funded by State of Arizona appropriations  | 5,250             |
| <b>Total current liabilities</b>           | <b>\$ 208,193</b> |

### Noncurrent liabilities

|   |                     |
|---|---------------------|
| Deferred revenue and deposits (Note 6)    | \$ 20,070           |
| Accrued compensated absences (Note 7)     | 29,599              |
| Funds held for others                     | 38,793              |
| Long-term debt (Note 8)                   |                     |
| Funded by University revenues             | 817,493             |
| Funded by State of Arizona appropriations | 187,780             |
| <b>Total noncurrent liabilities</b>       | <b>\$ 1,093,735</b> |
| <b>Total Liabilities</b>                  | <b>\$ 1,301,928</b> |

## Net Assets

|   |                   |
|---|-------------------|
| Invested in capital assets, net of related debt | \$ 466,674        |
| Restricted for nonexpendable:                   |                   |
| Endowments                                      | 76,589            |
| Student loans                                   | 17,718            |
| Restricted for expendable:                      |                   |
| Scholarships and fellowships                    | 25,847            |
| Academic department uses                        | 84,713            |
| Capital projects                                | 2,522             |
| Debt service                                    | 27,293            |
| Unrestricted                                    | 179,821           |
| <b>Total Net Assets</b>                         | <b>\$ 881,177</b> |

See Notes to Financial Statements



# Statement of Financial Position - Component Units

June 30, 2009 (in thousands of dollars)

## Assets

|                                      |                   |
|--------------------------------------|-------------------|
| Cash and cash equivalents            | \$ 60,625         |
| Pledges receivable                   | 51,552            |
| Other receivables                    | 4,704             |
| Investments in marketable securities | 343,725           |
| Other Investments                    | 8,368             |
| Property and equipment, net          | 14,841            |
| Other assets                         | 7,344             |
| <b>Total Assets</b>                  | <b>\$ 491,159</b> |

## Liabilities and Net Assets

### Liabilities

|   |                  |
|---|------------------|
| Accounts payable and accrued expenses         | \$ 7,846         |
| Annuities payable and other trust liabilities | 15,492           |
| Deferred revenue and deposits                 | 5,248            |
| Short-term and long-term debt                 | 9,109            |
| Other liabilities                             | 2,088            |
| <b>Total Liabilities</b>                      | <b>\$ 39,783</b> |

### Net Assets

|   |                   |
|---|-------------------|
| Unrestricted                            | \$ 25,095         |
| Temporarily restricted                  | 141,096           |
| Permanently restricted                  | 285,185           |
| <b>Total Net Assets</b>                 | <b>\$ 451,376</b> |
| <b>Total Liabilities and Net Assets</b> | <b>\$ 491,159</b> |

See Notes to Financial Statements

# Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2009 (in thousands of dollars)

## Operating Revenues

|  |                   |
|--|-------------------|
| Student tuition and fees, net of scholarship allowances of \$107,907 | \$ 269,447        |
| Federal grants and contracts   | 303,115           |
| State and other government grants and contracts                      | 24,868            |
| Nongovernment grants and contracts                                   | 67,629            |
| Sales and services of educational departments                        | 29,936            |
| Auxiliary enterprises, net of scholarship allowances of \$4,362      | 154,698           |
| Other operating revenues   | 10,356            |
| <b>Total operating revenues</b>                                      | <b>\$ 860,049</b> |

## Operating Expenses

|                                    |                     |
|------------------------------------|---------------------|
| Educational and general            |                     |
| Instruction                        | \$ 357,515          |
| Research                           | 385,467             |
| Public service                     | 69,843              |
| Academic support                   | 105,426             |
| Student services                   | 28,223              |
| Institutional support              | 85,264              |
| Operation and maintenance of plant | 83,111              |
| Scholarships and fellowships       | 46,673              |
| Auxiliary enterprises              | 144,707             |
| Depreciation (Note 5)              | 99,657              |
| <b>Total operating expenses</b>    | <b>\$ 1,405,886</b> |
| <b>Operating Loss</b>              | <b>\$ (545,837)</b> |

## Nonoperating Revenues (Expenses)

|  |                    |
|--|--------------------|
| State appropriations                               | \$ 348,941         |
| Share of State sales tax revenues                  | 22,547             |
| Federal grants and appropriations                  | 63,172             |
| Federal fiscal stabilization funds                 | 60,824             |
| State and other government grants                  | 4,681              |
| Nongovernment grants                               | 2,676              |
| Gifts  | 78,156             |
| Investment income (loss)                           | (19,749)           |
| Interest expense on debt                           | (40,887)           |
| Other nonoperating revenues, net                   | 10,175             |
| <b>Net nonoperating revenues</b>                   | <b>\$ 530,536</b>  |
| <b>Loss before Capital and Endowment Additions</b> | <b>\$ (15,301)</b> |

|  |                  |
|--|------------------|
| Capital grants, gifts and conveyances                              | \$ 7,548         |
| Capital appropriations – Research Infrastructure Capital Financing | 14,253           |
| Additions to permanent endowments                                  | 3,315            |
| <b>Total capital and endowment additions</b>                       | <b>\$ 25,116</b> |
| <b>Increase in Net Assets</b>                                      | <b>\$ 9,815</b>  |

## Net Assets

|                                 |                   |
|---------------------------------|-------------------|
| Net Assets - Beginning of year  | 871,362           |
| <b>Net Assets - End of year</b> | <b>\$ 881,177</b> |

See Notes to Financial Statements

# Statement of Activities – Component Units

Year Ended June 30, 2009 (in thousands of dollars)

|  | Unrestricted      | Temporarily Restricted | Permanently Restricted | Total              |
|--|-------------------|------------------------|------------------------|--------------------|
| <b>Revenues</b>                          |                   |                        |                        |                    |
| Sales and services                       | \$ 803            |                        |                        | \$ 803             |
| Contributions                            | 1,566             | \$ 42,738              | \$ 19,145              | 63,449             |
| Rental revenues                          | 12,651            |                        |                        | 12,651             |
| Investment income (loss)                 | (4,985)           | (9,050)                | (61,267)               | (75,302)           |
| Net assets released from restriction     | 50,924            | (39,651)               | (11,273)               |                    |
| Other income                             | 8,940             | 4,163                  | 107                    | 13,210             |
| <b>Total revenues</b>                    | <b>\$ 69,899</b>  | <b>\$ (1,800)</b>      | <b>\$ (53,288)</b>     | <b>\$ 14,811</b>   |
| <b>Expenses</b>                          |                   |                        |                        |                    |
| Program services:                        |                   |                        |                        |                    |
| Leasing related expenses                 | \$ 8,883          |                        |                        | \$ 8,883           |
| Payments to the University               | 35,806            |                        |                        | 35,806             |
| Payments on behalf of the University     | 18,478            |                        |                        | 18,478             |
| Supporting services:                     |                   |                        |                        |                    |
| Management and general                   | 5,922             |                        |                        | 5,922              |
| Fund raising                             | 5,642             |                        |                        | 5,642              |
| Other expenses                           | 48                |                        |                        | 48                 |
| <b>Total expenses</b>                    | <b>\$ 74,779</b>  |                        |                        | <b>\$ 74,779</b>   |
| <b>Increase/(decrease) in Net Assets</b> | <b>\$ (4,880)</b> | <b>\$ (1,800)</b>      | <b>\$ (53,288)</b>     | <b>\$ (59,968)</b> |
| Net Assets - Beginning of year           | 30,371            | 147,555                | 333,423                | 511,349            |
| Transfers                                | (356)             | (4,694)                | 5,050                  |                    |
| Cumulative Effect of Accounting Changes  | (40)              | 35                     |                        | (5)                |
| <b>Net Assets - End of year</b>          | <b>\$ 25,095</b>  | <b>\$ 141,096</b>      | <b>\$ 285,185</b>      | <b>\$ 451,376</b>  |

See Notes to Financial Statements



INSTRUCTION: Using digital technologies, today's multidisciplinary labs (MDLs) at the UA College of Medicine, provide access to a virtually limitless variety of images and even procedures from outside the labs, enabling the teaching of practically any subject. Courtesy of AHSC Biomedical Communications



# Statement of Cash Flows

Year Ended June 30, 2009 *(in thousands of dollars)*

## Cash Flows from Operating Activities

|   |            |
|---|------------|
| Tuition and fees                              | \$ 270,376 |
| Grants and contracts                          | 405,776    |
| Payments for salaries, wages and benefits     | (915,563)  |
| Payments to suppliers                         | (332,002)  |
| Payments for scholarships and fellowships     | (42,145)   |
| Loans issued to students                      | (4,051)    |
| Collections on loans to students              | 6,980      |
| Auxiliary enterprise receipts                 | 154,888    |
| Sales and services of educational departments | 31,144     |
| Other receipts                                | 10,349     |

**Net cash used for operating activities** **\$ (414,248)**

## Cash Flows from Noncapital Financing Activities

|  |            |
|--|------------|
| State appropriations                             | \$ 305,761 |
| Share of State sales tax receipts                | 24,962     |
| Gifts and grants for other than capital purposes | 152,098    |
| Other nonoperating receipts                      | 7,782      |
| Federal Family Education Loans received          | 147,510    |
| Federal Family Education Loans disbursed         | (147,036)  |
| Funds held for others received                   | 76,039     |
| Funds held for others disbursed                  | (88,458)   |

**Net cash provided by noncapital financing activities** **\$ 478,658**

## Cash Flows from Capital Financing Activities

|  |            |
|--|------------|
| Proceeds from issuance of capital debt, including premiums | \$ 210,711 |
| Capital grants, gifts and appropriations received          | 20,634     |
| Proceeds from sale of capital assets                       | 523        |
| Purchase of capital assets                                 | (126,298)  |
| Principal paid on capital debt and leases                  | (41,027)   |
| Interest paid on capital debt and leases                   | (39,494)   |

**Net cash provided by capital financing activities** **\$ 25,049**

## Cash Flows from Investing Activities

|   |            |
|---|------------|
| Proceeds from sales and maturities of investments | \$ 279,945 |
| Interest and dividends on investments             | 9,306      |
| Purchase of investments                           | (385,880)  |

**Net cash used for investing activities** **\$ (96,629)**

**Net decrease in Cash and Cash Equivalents** **\$ (7,170)**

## Cash and Cash Equivalents

|  |                   |
|--|-------------------|
| Cash and Cash Equivalents - Beginning of year  | 176,240           |
| <b>Cash and Cash Equivalents - End of year</b> | <b>\$ 169,070</b> |

*See Notes to Financial Statements*

# Statement of Cash Flows

Year Ended June 30, 2009 (in thousands of dollars)

## Reconciliation of Operating Loss to Net Cash Used for Operating Activities

|  |                     |
|--|---------------------|
| Operating loss   | \$ (545,837)        |
| Adjustments to reconcile operating loss to net cash used for operating activities: |                     |
| Depreciation expense   | 99,657              |
| Changes in assets and liabilities:   |                     |
| Receivables, net   | 6,277               |
| Inventories  | (979)               |
| Deferred expenses  | 4,724               |
| Accounts payable   | 6,462               |
| Accrued payroll and benefits and compensated absences                              | 5,674               |
| Deferred revenue and deposits  | 9,774               |
| <b>Net Cash Used for Operating Activities</b>                                      | <b>\$ (414,248)</b> |

## Significant Noncash Transactions

|  |          |
|--|----------|
| Gifts and conveyances of capital assets  | \$ 1,995 |
| Change in fair value of investments  | (21,611) |
| Amortization of bond discount and issuance costs   | (2,300)  |
| Amortization of bond premium   | 1,487    |
| Net loss on disposal of capital assets with an original cost of \$18,906,<br>accumulated depreciation of \$15,180 and cash proceeds of \$523 | (3,203)  |
| Amortization of IBM deferred rent  | 4,900    |

See Notes to Financial Statements



**PUBLIC SERVICE:** Ronald Weinstein, MD, Director of the Arizona Telemedicine Program, teaches a telemedicine training class at The University of Arizona College of Medicine – Phoenix in partnership with Arizona State University.

# 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 13. 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.

For the year ended June 30, 2009, the University implemented the provisions of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, and No. 52, *Land and Other Real Estate Held as Investments by Endowments*. GASB Statement No. 49 establishes standards for accounting and financial reporting for pollution remediation obligations. GASB Statement No. 52 amends Statement No. 31 and establishes standards for accounting

and financial reporting for land and other real estate held as investments by endowments. GASB Statements No. 49 and 52 had an insignificant effect on reported amounts of revenues, expenses and net assets in fiscal year 2009 and therefore required no additional note disclosures.

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.

- 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 are those that generally result from exchange transactions. Accordingly, revenues such as tuition and fees, sales and services of auxiliary enterprises and most government and nongovernment research grants and contracts are considered operating. Certain significant revenue streams relied upon for operations are recorded as nonoperating revenues, as defined by GASB Statement No. 35, including state appropriations, nonexchange grants, gifts and investment income. 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 2009, the expendable rate was established at 4% of the three-year average market value ending December 31, 2007. Donor restricted endowments that are available for expenditure are reported as restricted and expendable on the Statement of Net Assets.

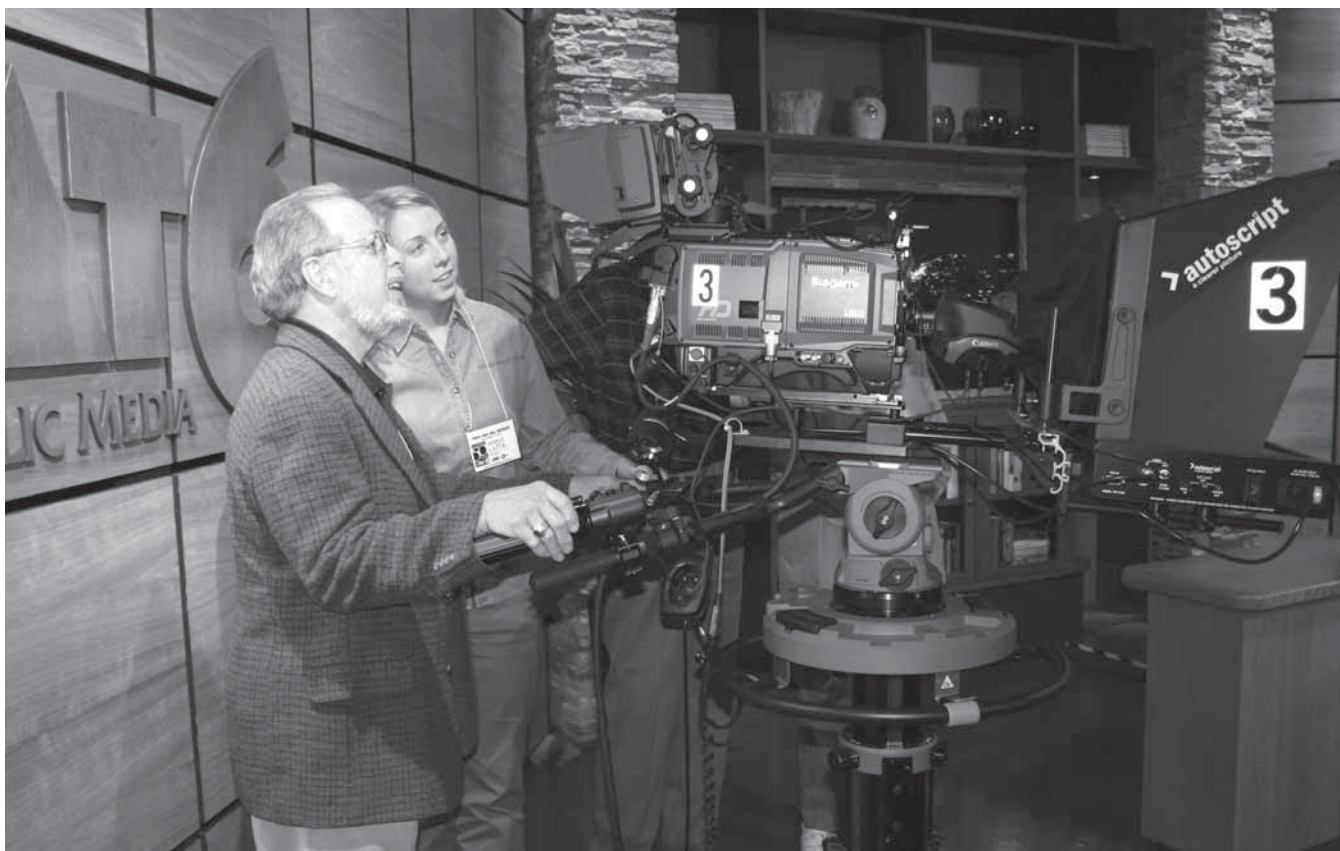
**Inventories** – Inventories consist primarily of bookstore items and resale supplies. They are stated at the lower of cost (determined by the first-in, first-out or the weighted average method) or market.

### 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, Pfeifer, 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.



**PUBLIC SERVICE:** The University of Arizona has been home to public broadcasting in Arizona since 1959, when the FCC granted the call letters KUAT. Its service to the public stays strong through ongoing public support and active community involvement. *Courtesy of Arizona Public Media*

**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.

## 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 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: The 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

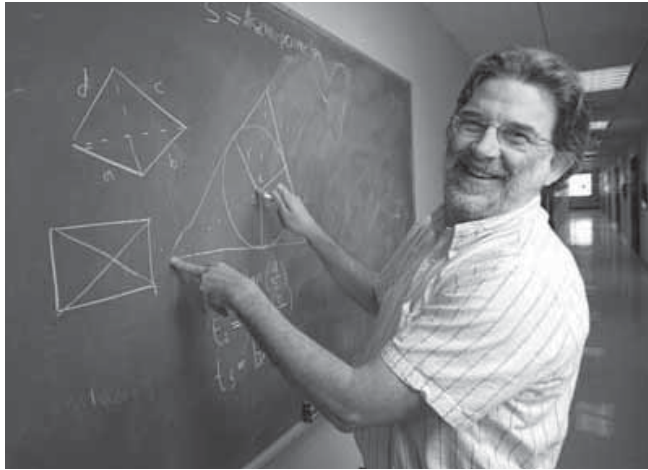
entirely for the direct benefit of the University, and as the University is entitled to a majority of the economic resources received or held by the Alumni Association, it is considered a component unit of the University and is discretely presented in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Alumni Association at the following address: Alumni Association, The 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, The University of Arizona, P.O. Box 210176, Tucson, Arizona 85721-0176.



**RESEARCH:** Photovoltaic solar panel installation atop the Second St. Garage will generate 200 kilowatts of electricity. The first phase of the project will offer a chance to test the technology and evaluate the data. "The UA is a research university and we want to lead by example," said Ralph Banks, assistant director of Planning, Design and Construction. *Courtesy of Leslie Johnston*





INSTRUCTION: William G. McCallum, mathematics department head and University Distinguished Professor.

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 67% 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 2009, a distribution of \$250,000 was made 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: The 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 and investments had a fair value of \$614,270,000. The required disclosures are included in sections B, C and D of this footnote.

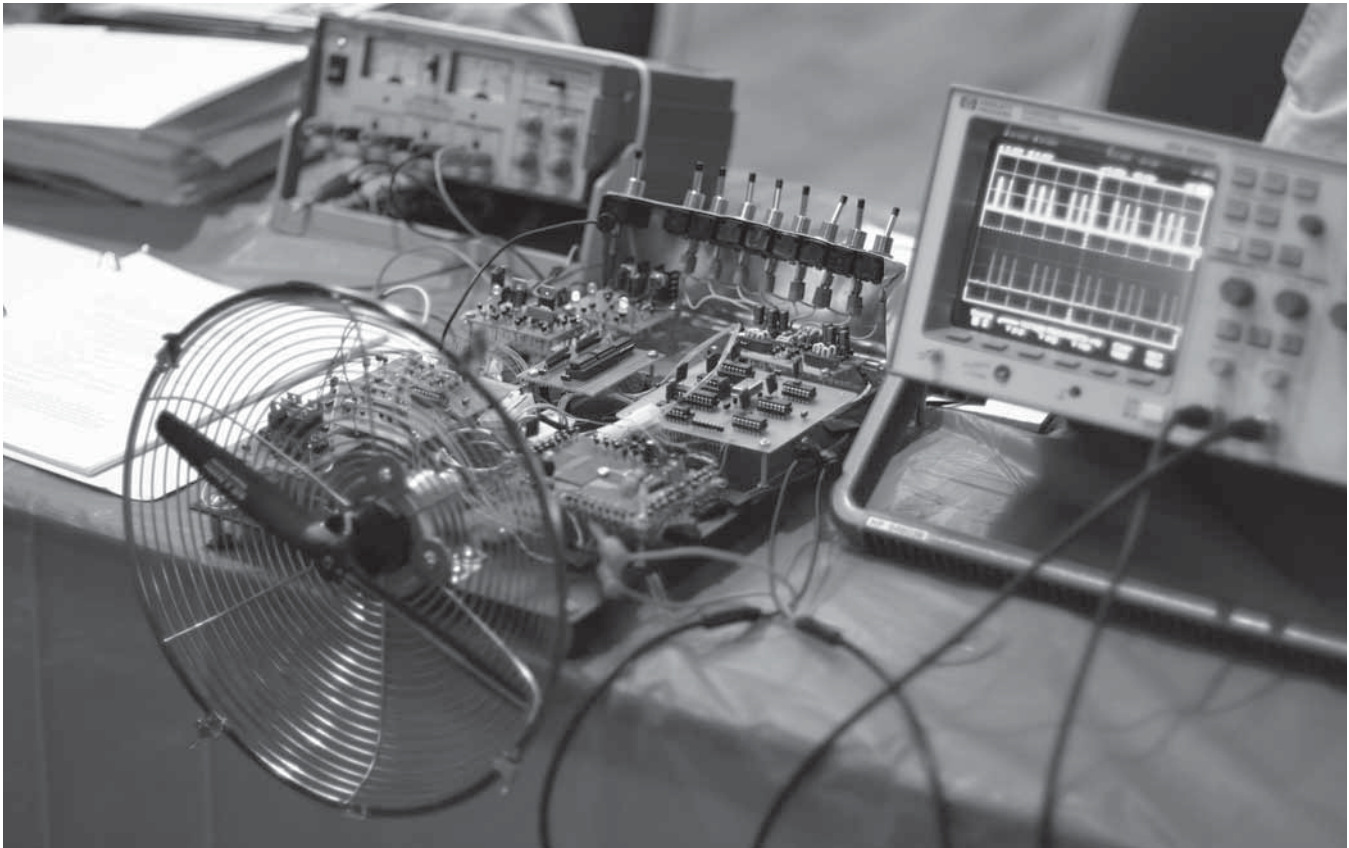
Included in the University's deposits and investments are capital project funds totaling \$206,839,000, which are held in trust by a commercial bank. Of this amount, \$189,199,000 is available for future construction costs, and \$17,640,000 is from bond proceed earnings for unrestricted purposes. Trust 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 in these investments 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 at \$23,568,000 and Northern Arizona University at \$8,944,000. The University's ASFAT funds are recorded as endowment investments at \$16,691,000. Beginning in fiscal year 2010, the ASFAT funds for ASU will no longer be managed and invested by the University of Arizona.

Also included within the endowment funds are certain endowments held by external trustees. At June 30, 2009, University endowments totaling \$13,653,000 are held and invested by bank trustees according to donor specifications. 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.



RESEARCH: Interdisciplinary engineering student design teams design, build, test and present their projects at the annual UA College of Engineering Design Day. The above project is a brushless direct-current (BLDC) motor that does not use complex electronic circuitry or embedded software, simplifying FAA certification of flight critical BLDC motor controllers for aerospace applications. *Courtesy of Ed Stiles*

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 in collateralized certificates of deposit and repurchase agreements, United States Treasury securities, Federal agency securities, investment grade corporate bonds or in the government investment pool administered by the State Treasurer's Office.

Investment of capital project funds held with bond trustees are subject to investment policy set by the Board and included in bond indentures. The moneys may be invested in obligations of or guaranteed by the federal government or any of the senior debt of its agencies, sponsored agencies, corporations, sponsored corporations or instrumentalities; or in collateralized certificates of deposit of federally insured banks, trust companies or savings and loan associations in the State of Arizona.

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, 2009, \$13,653,000 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.

### **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, Federal agency securities, investment grade corporate bonds or the government investment pool administered by the State Treasurer's Office. 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 operating funds, University policy requires corporate bonds and notes to be of investment grade quality, rated Baa or higher by Moody's Investors Service, at the time of purchase. The Moody's credit quality ratings for the University's investments in debt securities at June 30, 2009 are disclosed in the following table:

| Investment Type                                | Fair Value            | Not Rated         | Moody's            |                   |                  |                  |                |
|--|-----------------------|-------------------|--------------------|-------------------|------------------|------------------|----------------|
|  |                       |                   | AAA                | AA                | A                | BAA              | BA to CA       |
| Asset Backed Securities                        | \$ 4,208,000          | 474,000           | 3,311,000          |                   | 162,000          |                  | 261,000        |
| Bond Mutual Funds and<br>Exchange Traded Funds | 5,104,000             | 5,104,000         |                    |                   |                  |                  |                |
| Corporate Bonds                                | 39,566,000            | 5,215,000         | 7,522,000          | 18,705,000        | 3,818,000        | 3,948,000        | 358,000        |
| Federal Agency Securities                      | 119,432,000           |                   | 119,432,000        |                   |                  |                  |                |
| Long/Short Fixed Income                        | 4,906,000             | 4,906,000         |                    |                   |                  |                  |                |
| Money Market Mutual Funds                      | 243,432,000           | 425,000           | 243,007,000        |                   |                  |                  |                |
| Municipal Bonds                                | 3,416,000             | 385,000           | 960,000            | 1,843,000         |                  | 228,000          |                |
| State Treasurer's Pool                         | 1,111,000             | 1,111,000         |                    |                   |                  |                  |                |
| <b>Totals</b>                                  | <b>\$ 421,175,000</b> | <b>17,620,000</b> | <b>374,232,000</b> | <b>20,548,000</b> | <b>3,980,000</b> | <b>4,176,000</b> | <b>619,000</b> |

### **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. Except 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, 2009, the University had investments in Federal Home Loan Banks and Federal Home Loan Mortgage Corporation agency securities with a fair value of \$40,074,000 and \$30,716,000 or 6.5% and 5% 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 five 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, 2009, utilizing the segmented time distribution method:



| Investment Type                                | Fair Value            | Maturity Date      |                    |                   |                   |
|--|-----------------------|--------------------|--------------------|-------------------|-------------------|
|  |                       | < 1 Year           | 1-5 Years          | 6-10 Years        | > 10 Years        |
| Asset Backed Securities                        | \$ 4,208,000          | 6,000              | 633,000            | 162,000           | 3,407,000         |
| Bond Mutual Funds and<br>Exchange Traded Funds | 5,104,000             | 284,000            |                    | 4,810,000         | 10,000            |
| Corporate Bonds                                | 39,566,000            | 3,207,000          | 32,950,000         | 2,436,000         | 973,000           |
| Federal Agency Securities                      | 122,237,000           | 29,552,000         | 82,592,000         | 3,809,000         | 6,284,000         |
| Long/Short Fixed Income                        | 4,906,000             | 4,906,000          |                    |                   |                   |
| Money Market Mutual Funds                      | 243,432,000           | 243,432,000        |                    |                   |                   |
| Municipal Bonds                                | 3,416,000             |                    | 682,000            | 662,000           | 2,072,000         |
| State Treasurer's Pool                         | 1,111,000             | 1,111,000          |                    |                   |                   |
| U.S. Treasury Securities                       | 75,676,000            | 52,834,000         | 20,847,000         | 449,000           | 1,546,000         |
| <b>Totals</b>                                  | <b>\$ 499,656,000</b> | <b>335,332,000</b> | <b>137,704,000</b> | <b>12,328,000</b> | <b>14,292,000</b> |

At June 30, 2009, the University held \$122,237,000 or 20% of investments in Federal agency securities, including Federal Farm Credit Banks, Federal Home Loan Banks, U.S. Small Business Administration, Federal Home Loan Mortgage Corporation and Federal National Mortgage Association, which may be considered to be highly sensitive to interest rate fluctuations because borrower repayment terms may vary.

#### **Foreign Currency Risk:**

The University's foreign-currency denominated investments at June 30, 2009 are shown in the table below. These investments are part of the University's endowment portfolio and are invested in the University's Consolidated Endowment Growth/Income Pool or are invested and held by external trustees. University policy does not include any specific requirements for foreign currency risk of investments in the Growth/Income Pool except that no more than 50% of the investments in the pool may be invested in equity investments of foreign-based companies. University endowment funds held by external trustees are invested in accordance with donor restrictions and are not subject to the Growth/Income Pool policy limitations. University policy does not allow funds outside of the endowment portfolio to hold international investments.

| Investment Type              | Currency        | Fair Value    |
|------------------------------|-----------------|---------------|
| Common Stock                 | Canadian dollar | \$ 32,000     |
| Private Infrastructure Funds | European euro   | 5,443,000     |
| Equity Mutual Funds          | Various         | 19,244,000    |
| Bond Mutual Funds            | Various         | 980,000       |
| Total                        |                 | \$ 25,699,000 |

In addition to the investments listed above, at June 30, 2009, the University had deposits in European euros of \$837,000. University policy does not address foreign currency risk for deposits.

#### **D. Securities Lending**

During the fiscal year, the University elected not to participate in securities lending. This investment option remains available to the University.

## 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, INAF Astrophysical Observatory, 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, 2009, the University had made cash contributions of \$18,159,000 toward the project's construction costs, which

were recorded as long-term investments on the statement of net assets. The University's financial interest represents future viewing/observation rights. As of December 31, 2007, the assets had been substantially completed and the telescope entered the commissioning phase. During calendar year 2007, the telescope became operational for research purposes; thus, depreciation of the property and equipment commenced. The University recorded its proportionate share of the use of the viewing/observation rights, \$726,000 in calendar year 2008, as a reduction in its investment. At June 30, 2009, the investment totaled \$16,757,000. According to the audited financial statements of LBT for the year ended December 31, 2008, assets, liabilities, revenues and expenses totaled \$125 million, \$3 million, \$15 million, and \$11 million, respectively. For information regarding 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, 2009 was as follows:

|                                      | <b>Beginning<br/>Balance<br/>July 1, 2008</b> | <b>Additions</b>            | <b>Retirements</b>           | <b>Transfers/<br/>Reclasses</b> | <b>Ending<br/>Balance<br/>June 30, 2009</b> |
|--------------------------------------|---|-----------------------------|------------------------------|---------------------------------|---|
| Land                                 | \$ 71,825,000                                 | \$ 1,689,000                |                              |                                 | \$ 73,514,000                               |
| Construction in progress             | 68,152,000                                    | 84,552,000                  |                              | \$ (65,529,000)                 | 87,175,000                                  |
| Total non-depreciable capital assets | <u>\$ 139,977,000</u>                         | <u>\$ 86,241,000</u>        |                              | <u>\$ (65,529,000)</u>          | <u>\$ 160,689,000</u>                       |
| Buildings and improvements           | \$1,534,849,000                               | \$ 2,823,000                | \$ (1,953,000)               | \$ 52,775,000                   | \$ 1,588,494,000                            |
| Infrastructure                       | 163,990,000                                   | 110,000                     |                              | 13,002,000                      | 177,102,000                                 |
| Equipment                            | 402,637,000                                   | 28,359,000                  | (15,013,000)                 | (248,000)                       | 415,735,000                                 |
| Library materials                    | 220,626,000                                   | 11,620,000                  | (1,940,000)                  |                                 | 230,306,000                                 |
| Total depreciable capital assets     | <u>\$2,322,102,000</u>                        | <u>\$ 42,912,000</u>        | <u>\$ (18,906,000)</u>       | <u>\$ 65,529,000</u>            | <u>\$ 2,411,637,000</u>                     |
| Less: accumulated depreciation       |   |                             |                              |                                 |   |
| Buildings and improvements           | \$ 635,278,000                                | \$ 51,971,000               | \$ (1,087,000)               | \$ 69,000                       | \$ 686,231,000                              |
| Infrastructure                       | 59,420,000                                    | 6,978,000                   |                              |                                 | 66,398,000                                  |
| Equipment                            | 280,742,000                                   | 30,198,000                  | (12,153,000)                 | (69,000)                        | 298,718,000                                 |
| Library materials                    | 172,981,000                                   | 10,510,000                  | (1,940,000)                  |                                 | 181,551,000                                 |
| Total accumulated depreciation       | <u>\$1,148,421,000</u>                        | <u>\$ 99,657,000</u>        | <u>\$ (15,180,000)</u>       | <u>\$ 0</u>                     | <u>\$ 1,232,898,000</u>                     |
| Depreciable capital assets, net      | <u>\$1,173,681,000</u>                        | <u>\$ (56,745,000)</u>      | <u>\$ (3,726,000)</u>        | <u>\$ 65,529,000</u>            | <u>\$ 1,178,739,000</u>                     |
| Capital assets, net                  | <u><u>\$1,313,658,000</u></u>                 | <u><u>\$ 29,496,000</u></u> | <u><u>\$ (3,726,000)</u></u> | <u><u>\$ 0</u></u>              | <u><u>\$ 1,339,428,000</u></u>              |

In addition to expenditures through June 30, 2009, it is estimated that \$848,050,000 will be required to complete projects under construction or planned for construction. Of that amount, \$136,768,000 is contractually encumbered.

NOTE 6. DEFERRED REVENUE AND DEPOSITS

Deferred revenue consists primarily of amounts received from grants and contract sponsors that 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 (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 33% of the building space for periods up to the remaining term of five 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, 2009 consist of the following:

|  |                      |
|--|----------------------|
| <b>Current Deferred Revenue and Deposits</b>             |                      |
| Unexpended cash advances received for sponsored programs | \$ 44,721,000        |
| Auxiliary sales and services                             | 6,089,000            |
| IBM lease related to the acquisition of the Park         | 4,900,000            |
| Tuition and fees   | 4,978,000            |
| Other deferred revenues                                  | 2,166,000            |
| Deposits   | 1,357,000            |
| Total current deferred revenue and deposits              | <u>\$ 64,211,000</u> |
| <b>Noncurrent Deferred Revenue and Deposits</b>          |                      |
| IBM lease related to the acquisition of the Park         | <u>\$ 20,070,000</u> |

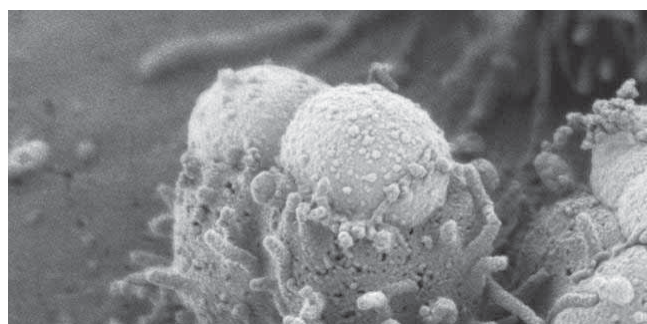
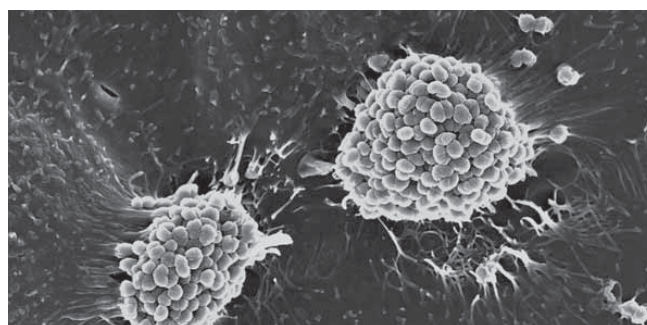


PUBLIC SERVICE:  
Arizona State Museum  
houses the world’s largest  
collection of Southwestern  
Indian pottery. *Courtesy of  
Leslie Johnston*

## 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, 2009 was as follows:

|                   |               |
|-------------------|---------------|
| Beginning balance | \$ 35,945,000 |
| Additions         | 43,946,000    |
| Reductions        | (43,862,000)  |
| Ending balance    | \$ 36,029,000 |
| Current portion   | \$ 6,430,000  |



RESEARCH: Examples of the study of immunopathogenesis, top, and immunobiology, bottom. *Courtesy of Janko Nikolich-Zugich, MD, PhD, and Magdalene So, PhD*

## NOTE 8. LONG-TERM DEBT & LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2009 was as follows:

|                               | <b>Beginning<br/>Balance<br/>July 1, 2008</b> | <b>Additions</b>      | <b>Reductions</b>      | <b>Ending<br/>Balance<br/>June 30, 2009</b> | <b>Due<br/>Within<br/>One Year</b> |
|-------------------------------|---|-----------------------|------------------------|---|------------------------------------|
| Bonds payable                 | \$ 319,005,000                                | \$ 202,370,000        | \$ (22,725,000)        | \$ 498,650,000                              | \$ 23,860,000                      |
| Certificates of participation | 503,723,000                                   | 196,000               | (14,060,000)           | 489,859,000                                 | 14,625,000                         |
| Capitalized lease obligations | 54,527,000                                    | 1,550,000             | ( 4,456,000)           | 51,621,000                                  | 3,863,000                          |
| Subtotal long-term debt       | \$ 877,255,000                                | \$ 204,116,000        | \$ (41,241,000)        | \$ 1,040,130,000                            | \$ 42,348,000                      |
| Premium on sale of debt       | 18,467,000                                    | 8,341,000             | (1,487,000)            | 25,321,000                                  | 1,729,000                          |
| Discount on sale of debt      | (3,016,000)                                   | 0                     | 144,000                | ( 2,872,000)                                | (144,000)                          |
| Deferred costs of refundings  | (16,367,000)                                  | 0                     | 1,497,000              | (14,870,000)                                | (1,497,000)                        |
| Total long-term debt          | <u>\$ 876,339,000</u>                         | <u>\$ 212,457,000</u> | <u>\$ (41,087,000)</u> | <u>\$ 1,047,709,000</u>                     | <u>\$ 42,436,000</u>               |



**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.

On April 28, 2009, the University sold System Revenue Bonds Series 2009A (2009A Bonds) for \$202,370,000 dated May 14, 2009. The 2009A Bonds include \$137,895,000 of serial bonds with interest rates ranging from 3.00% to 5.00% and maturity dates ranging from 2012 to 2032. The 2009A Bonds also include two term bonds consisting of \$24,965,000 with an interest rate of 5.00% due June 1, 2035; and \$39,510,000 with an interest rate of 5.00% due June 1, 2039. The 2009A Bonds with maturity on or after June 1, 2020, are subject to optional redemption without premium. The 2009A Bonds with maturity on June 1, 2035 and June 1, 2039 (the "Term Bonds") are subject to mandatory sinking fund redemption without premium pursuant to the debt documents. The 2009A Bonds sold at a premium of \$8,341,000. The University realized net proceeds of \$209,115,000 after payment of \$1,596,000 for issuance costs and underwriter discounts. The net proceeds were used to finance the Sixth

Street Residence Halls, the Residence Life Building Renewal Phase 3 and 4 Projects and to pay capitalized interest until December 1, 2011 on bonds allocated to the Sixth Street Residence Halls Project.

In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2000A. At June 30, 2009, the outstanding principal balance of the refunded bonds was \$2,320,000, which will be paid by investments held in an irrevocable trust with a fair value of \$2,378,000. 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, the remaining principal balance of System Revenue Bonds Series 2000A. At June 30, 2009, the total outstanding principal balance for the refunded System Revenue Bonds Series 2000A was \$14,210,000, which will be paid by investments held in an irrevocable trust with a total fair value of \$14,365,000. Accordingly, the trust account assets and liability for these defeased bonds are not included in the University's financial statements.



**PUBLIC SERVICE:** A medical student in the all-volunteer Commitment to Underserved People Program introduces elementary school-age children to the health sciences. *Courtesy of AHSC Biomedical Communications*

The following schedule details outstanding bonds payable at June 30, 2009:

| <b>Issue</b>                           | <b>Original Amount</b> | <b>Year of Final Maturity</b> | <b>Interest Rates</b> | <b>Outstanding Principal</b> |
|--|------------------------|-------------------------------|-----------------------|------------------------------|
| 1992A – System Revenue Refunding Bonds | \$ 55,490,000          | 2016                          | 6.00-6.20%            | \$ 39,135,000                |
| 2002 – System Revenue Refunding Bonds  | 93,080,000             | 2011                          | 4.10-5.25%            | 24,440,000                   |
| 2003 – System Revenue Refunding Bonds  | 30,805,000             | 2024                          | 3.50-5.00%            | 30,805,000                   |
| 2004A – System Revenue Bonds           | 17,780,000             | 2029                          | 4.00-5.00%            | 15,550,000                   |
| 2004B – System Revenue Bonds           | 50,265,000             | 2034                          | 3.00-5.00%            | 49,425,000                   |
| 2005A – System Revenue Bonds           | 35,570,000             | 2031                          | 3.125-5.00%           | 33,320,000                   |
| 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%            | 29,670,000                   |
| 2008A – System Revenue Bonds           | 43,105,000             | 2040                          | 4.00-5.00%            | 42,060,000                   |
| 2008B – System Revenue Bonds           | 18,090,000             | 2018                          | 3.50-4.50%            | 14,230,000                   |
| 2009A – System Revenue Bonds           | 202,370,000            | 2039                          | 3.00-5.00%            | 202,370,000                  |
| <b>Total</b>                           | <b>\$ 595,210,000</b>  |                               |                       | <b>\$ 498,650,000</b>        |

The following schedule details debt service requirements to maturity for System Revenue Bonds payable at June 30, 2009:

| <b>Year</b>  | <b>Principal</b>      | <b>Interest</b>       |
|--------------|-----------------------|-----------------------|
| 2010         | \$ 23,860,000         | \$ 24,593,000         |
| 2011         | 24,720,000            | 22,984,000            |
| 2012         | 17,375,000            | 21,759,000            |
| 2013         | 21,470,000            | 20,918,000            |
| 2014         | 22,500,000            | 19,918,000            |
| 2015-19      | 101,395,000           | 83,920,000            |
| 2020-24      | 85,250,000            | 61,066,000            |
| 2025-29      | 74,460,000            | 42,309,000            |
| 2030-34      | 70,110,000            | 23,791,000            |
| 2035-39      | 55,790,000            | 8,907,000             |
| 2040         | 1,720,000             | 77,000                |
| <b>Total</b> | <b>\$ 498,650,000</b> | <b>\$ 330,242,000</b> |



INSTRUCTION: Arizona Volleyball coach Dave Rubio with Paige Weber. Courtesy of J&L

The University has pledged portions of its gross revenues towards the payment of debt related to all system revenue and system revenue refunding bonds outstanding at June 30, 2009. The bonds generally provide financing for various capital projects of the University. These pledged revenues include student tuition and fees, auxiliary enterprise revenue, sales and service revenue and other operating revenues, such as indirect cost recovery and certain investment income. Pledged revenues do not include state appropriations, gifts, endowment income or other restricted revenues. At June 30, 2009, pledged revenues totaled \$681.9 million, of which 5.6% (\$38.2 million) was required to cover current year debt service. Future pledged revenues required to pay all remaining debt service for the system revenue and system revenue refunding bonds through final maturity of June 1, 2040 is \$828.9 million.

**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.

In fiscal year 2003, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 2001B. At June 30, 2009, the outstanding principal balance for the Certificates of Participation Series 2001B was \$2,905,000, which will be paid by investments held in an irrevocable trust with a fair market value of \$3,132,000. Accordingly, the trust account assets and liability for these defeased certificates 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 2001A. At June 30, 2009, the total outstanding principal balance for the Certificates of Participation Series 2001A was \$8,730,000, which will be paid by investments held in an irrevocable trust with a fair value of \$8,931,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.



INSTRUCTION: ArizonaMed is an innovative curriculum that encourages interactive teaching and active learning throughout the four years of medical school. *Courtesy AHSC Biomedical Communications*

In fiscal year 2007, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 2001A, 2001B, and 2002A. At June 30, 2009, the total outstanding principal balance for the Certificates of Participation Series 2001A, 2001B, and 2002A was \$59,195,000, which will be paid by investments held in an irrevocable trust with a fair value of \$60,333,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.

The following schedule details outstanding Certificates of Participation payable at June 30, 2009:

| Issue |   | Original Amount       | Year of Final Maturity | Interest Rates | Outstanding Principal |
|-------|---|-----------------------|------------------------|----------------|-----------------------|
| 1999A | Fixed Student Union Certificates  | \$ 21,607,000         | 2020                   | 5.125-5.30%    | \$ 4,159,000          |
| 2001A | Park Std. Union, Learning Svcs., 6 <sup>th</sup> Street Garage, TEP Bldg.               | 31,695,000            | 2012                   | 4.20-4.450%    | 2,535,000             |
| 2001B | Gittings Bldg., Highland Infra., Life Sci.  | 21,425,000            | 2014                   | 4.75-5.00%     | 2,185,000             |
| 2002A | Student Housing, Health Bldg., UA North   | 76,965,000            | 2022                   | 4.380-5.50%    | 15,665,000            |
| 2002B | Meinel Bldg., Refund COPS 1994B   | 29,845,000            | 2023                   | 3.50-5.125%    | 27,220,000            |
| 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                   | 3.767-5.25%    | 142,825,000           |
| 2004A | Chemistry Bldg. Expansion, Res. Life Phase I, Highland Pkg. Garage, Refund COPS 1994A   | 42,020,000            | 2029                   | 3.60-5.25%     | 33,620,000            |
| 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                   | 3.500-4.136%   | 3,485,000             |
| 2005F | Refund COPS 2000A & 2001A   | 14,915,000            | 2025                   | 3.75-4.50%     | 12,880,000            |
| 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%    | 11,270,000            |
| 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%     | 17,315,000            |
| 2007A | Refund COPS 2001A   | 12,035,000            | 2025                   | 3.50-4.50%     | 12,025,000            |
| 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%     | 42,850,000            |
| Total |   | <u>\$ 643,377,000</u> |                        |                | <u>\$ 489,859,000</u> |



The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2009:

| Year    | Principal             | Interest              |
|---------|-----------------------|-----------------------|
| 2010    | \$ 14,625,000         | \$ 22,800,000         |
| 2011    | 15,705,000            | 22,180,000            |
| 2012    | 21,852,000            | 21,913,000            |
| 2013    | 23,061,000            | 21,005,000            |
| 2014    | 24,223,000            | 19,903,000            |
| 2015-19 | 147,897,000           | 78,768,000            |
| 2020-24 | 147,651,000           | 41,963,000            |
| 2025-29 | 68,230,000            | 15,793,000            |
| 2030-31 | 26,615,000            | 1,893,000             |
| Total   | <u>\$ 489,859,000</u> | <u>\$ 246,218,000</u> |

**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. The largest lease entered into this fiscal year was with The University of Arizona Foundation for a real estate property in the amount of \$473,000, with a 5.75% interest rate and a final payment date of June 15, 2014.



RESEARCH: Researchers at the desalination research site in Marana hold water filtration membranes.

The following schedule details debt service requirements to maturity for capital leases payable at June 30, 2009:

| Year  | Capital Lease Payments |
|---|------------------------|
| 2010  | \$ 6,544,000           |
| 2011  | 6,314,000              |
| 2012  | 6,046,000              |
| 2013  | 6,031,000              |
| 2014  | 4,247,000              |
| 2015-19                                     | 16,259,000             |
| 2020-24                                     | 13,183,000             |
| 2025-29                                     | 13,369,000             |
| 2030-34                                     | 11,801,000             |
| 2035-36                                     | 1,525,000              |
| Total minimum lease payments                | <u>\$ 85,319,000</u>   |
| Less: interest                              | <u>(33,698,000)</u>    |
| Present value of net minimum lease payments | <u>\$ 51,621,000</u>   |

**Capital Asset Financing** – Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2009:

|                                |                       |
|--------------------------------|-----------------------|
| Land                           | \$ 6,882,000          |
| Buildings and improvements     | 498,233,000           |
| Infrastructure                 | 53,762,000            |
| Equipment                      | 23,484,000            |
| Total cost of assets           | \$ 582,361,000        |
| Less: accumulated depreciation | (129,904,000)         |
| Carrying value of assets       | <u>\$ 452,457,000</u> |

**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 2009, rent expenses totaled \$23,516,000.

The following schedule details future operating lease payments to maturity:

| Year  | Operating Lease Payments |
|-------|--------------------------|
| 2010  | \$ 4,065,000             |
| 2011  | 2,971,000                |
| 2012  | 2,492,000                |
| 2013  | 877,000                  |
| 2014  | 485,000                  |
| Total | <u>\$ 10,890,000</u>     |

## 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 Division. 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 state of Arizona, including University employees, and employees of participating political subdivisions and school districts. Benefits are established by State statute. The ASRS provides retirement, death and survivor benefits through its Retirement Fund; health insurance premium benefits (i.e., a monthly subsidy) through its Health Benefit Supplement Fund; and long-term disability benefits through its Long-Term Disability Fund. 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, 2009, active ASRS members were required to contribute at the actuarially determined rate of 9.45 percent (8.95 percent retirement and .5 percent long term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 9.45 percent (7.99 percent for retirement, .96 percent for health insurance premium, and 0.5 percent for long-term disability) of the members' annual covered payroll. The Arizona State Legislature establishes and may amend active plan members' and the University's contribution rates.

The University's contributions for the current and two preceding years, all of which were equal to the required contributions were as follows:

| Years ended June 30, | Retirement Fund | Health Benefit Supplement Fund | Long-Term Disability Fund |
|----------------------|-----------------|--------------------------------|---------------------------|
| 2009                 | \$ 24,015,000   | \$ 2,886,000                   | \$ 1,503,000              |
| 2008                 | 23,834,000      | 3,097,000                      | 1,477,000                 |
| 2007                 | 20,890,000      | 3,243,000                      | 1,405,000                 |

## 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, 2009, 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. 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, 2009, 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 a 7.5 percent member contribution and an 8.46 percent University contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2009, were as follows:

| Plan      | University Contributions | Member Contributions | Total Contributions |
|-----------|--------------------------|----------------------|---------------------|
| TIAA/CREF | \$ 13,786,000            | \$ 13,786,000        | \$ 27,572,000       |
| VALIC     | 740,000                  | 740,000              | 1,480,000           |
| Fidelity  | 6,827,000                | 6,827,000            | 13,654,000          |
| ASRS      | 33,000                   | 29,000               | 62,000              |

## NOTE 11. OPERATING EXPENSES BY NATURAL CLASSIFICATION

Operating expenses by natural classification for the year ended June 30, 2009 consist of the following:

| Category                     |                         |
|------------------------------|-------------------------|
| Salaries and wages           | \$ 696,463,000          |
| Benefits                     | 224,774,000             |
| Supplies and materials       | 122,877,000             |
| Services, including travel   | 179,139,000             |
| Utilities                    | 40,831,000              |
| Scholarships and fellowships | 42,145,000              |
| Depreciation                 | 99,657,000              |
| Total operating expenses     | <u>\$ 1,405,886,000</u> |

## NOTE 12. CONTINGENT LIABILITIES

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 the Arizona Board of Regents (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 judgment against both the Tribe and the individuals. All plaintiffs have filed notices of appeal and oral arguments were held on June 11, 2008. On November 28, 2008, the Arizona Court of Appeals reversed the trial court's grant of the defendants' motions for summary judgment in both cases and remanded both cases to the trial court for further proceedings. The State of Arizona Attorney General's Office is providing legal representation for the universities. On January 7, 2009, the State of Arizona Attorney General's Office filed its petition for review with the Arizona Supreme Court. On February 17, 2009, plaintiffs filed a joint response to defendants' petition for review with the Arizona Supreme Court, asking the Court to reject defendants' petition. On April 20, 2009, the Arizona Supreme Court denied ABOR's petition for review. It granted the petition filed on behalf of an ASU emeritus faculty member and a former ASU graduate student, who have since settled with the plaintiffs. The cases will now return to the trial court for further proceedings and active continuation of settlement efforts. An interim case management conference has been scheduled for November 6, 2009. Management is not able to predict at this time what the ultimate outcome of the case will be but intends to defend itself vigorously and is exploring alternative dispute resolution. It is anticipated that an adverse judgment 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.



**PUBLIC SERVICE:** The University is one of the top 25 national producers of Peace Corps volunteers and has received a lifetime achievement award for its commitment to the Peace Corps. Shown above are UA Peace Corps fellows participating in a service project at Marana Farms.

## NOTE 13. DISCRETELY PRESENTED COMPONENT UNIT DISCLOSURES

### A. Summary of Significant Accounting Policies

#### **The 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.

### **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. Such investments are exposed to various risks, including market risk, company-specific risk, country-specific risk, interest rate risk, liquidity risk and credit risk. 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. Investments in alternative securities are highly susceptible to valuation changes. 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 to benefit the University of Arizona's Center for Creative Photography) at a nominal value.

### **Annuities Payable and Other Trust Liabilities**

Annuities payable and other trust liabilities of \$15,492,000 at June 30, 2009 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, 2009

total \$28,288,000, of which \$2,117,000 were unrestricted, \$9,820,000 were temporarily restricted and \$16,351,000 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.

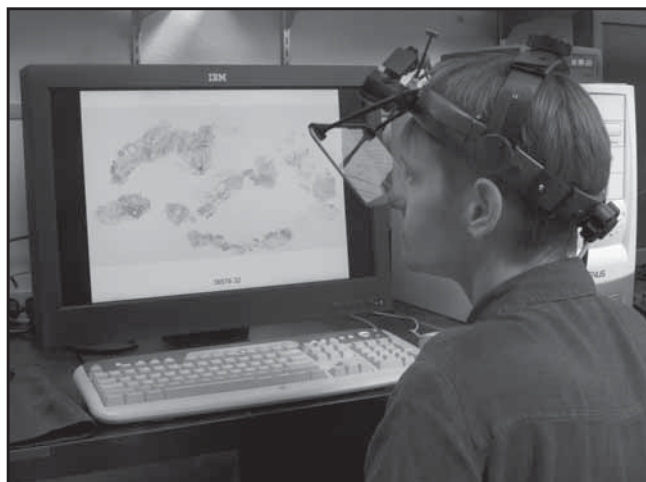
### **Law College Association of the University of Arizona Reclassifications**

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

### **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 Corporation 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.



RESEARCH: Dr. Elizabeth Krupinski in an eye-position recording experiment in the Department of Radiology's Image Perception Lab. She is shown with an eye-tracking module on her head. The system records where she is looking in the pathology image displayed on the monitor. *Courtesy of AHSC Biomedical Communications*

## B. Investments

### **The University of Arizona Foundation**

Investments are composed of the following amounts at June 30, 2009:

|   | <b>Carrying Value</b> | <b>Cost</b>           |
|---|-----------------------|-----------------------|
| Domestic/international equity securities and mutual funds | \$ 112,262,000        | \$ 141,418,000        |
| U.S. fixed income obligations and mutual funds            | 68,081,000            | 67,819,000            |
| Absolute return limited partnerships and funds            | 98,807,000            | 98,364,000            |
| REIT funds, real estate and timber partnerships           | 17,521,000            | 28,717,000            |
| International fixed income mutual funds                   | 17,011,000            | 22,350,000            |
| Private capital and commodity limited partnerships        | 21,574,000            | 27,413,000            |
| Totals  | <u>\$ 335,256,000</u> | <u>\$ 386,081,000</u> |

## C. Endowments

### **The University of Arizona Foundation**

The Foundation's endowment consists of approximately 1,200 individual funds established for a variety of purposes. In accordance with accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The Foundation has also invested certain unrestricted and temporarily restricted assets in its endowment pool. These invested funds, which have been marked-to-market, are reported as due from the permanently restricted fund in the accompanying financial statements. The endowment pool is subject to the Arizona Management of Charitable Funds Act, which was signed into law on April 14, 2008.

As a result of explicit donor stipulations contained in its endowment agreements, the Foundation classifies as permanently restricted net assets: (1) the original value of gifts donated to the endowment, (2) subsequent gifts to the endowment, and (3) all realized and unrealized appreciation or depreciation experienced by the endowment fund.

The endowment payout rate ("Payout Rate"), 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 2009) 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. Cost recovery fees of \$3,356,000 were recognized in 2009.

## D. Pledges Receivable

### **The 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, 2009 totaled \$21,650,000.

### **Law College Association of the University of Arizona**

At May 31, 2009, 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 \$29,901,000. Note that 94% of the Association's gross pledges receivable come from an individual donor.

## E. Property and Equipment

### Campus Research Corporation

Property and equipment consisted of the following as of June 30, 2009:

|  |                             |
|--|-----------------------------|
| Building and infrastructure improvements | \$ 14,017,000               |
| Furniture, equipment and other property  | 608,000                     |
| Total                                    | <u>\$ 14,625,000</u>        |
| Less accumulated depreciation            | <u>(3,544,000)</u>          |
| Property and equipment, net              | <u><u>\$ 11,081,000</u></u> |

## F. 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 \$6,142,000 due in June 2013.    | \$ 7,033,000               |
| Noninterest-bearing note payable, Arizona Commerce and Economic Development Commission, payable in monthly principal installments of \$2,000 through April 2016, unsecured.   | 152,000                    |
| Note payable, Wells Fargo Bank, payable in monthly installments of \$22,000 including interest at 7.25% through June 2010.  | 246,000                    |
| 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. | 1,647,000                  |
| Total long-term debt  | <u><u>\$ 9,078,000</u></u> |

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 Corporation to be in compliance with certain financial and nonfinancial covenants.

Wells Fargo Bank Arizona issued an \$11,400,000 letter of credit to enhance the sale of the bonds and the Corporation 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 Corporation 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 Corporation pays interest at the fixed rate and receives interest at LIBOR (proxy rate), which was 0.595% at June 30, 2009. The notional amount under the swaps 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, 2009 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 2009 and the liability is included in the balance sheet at June 30, 2009.

## G. Project Operation Agreement (POA):

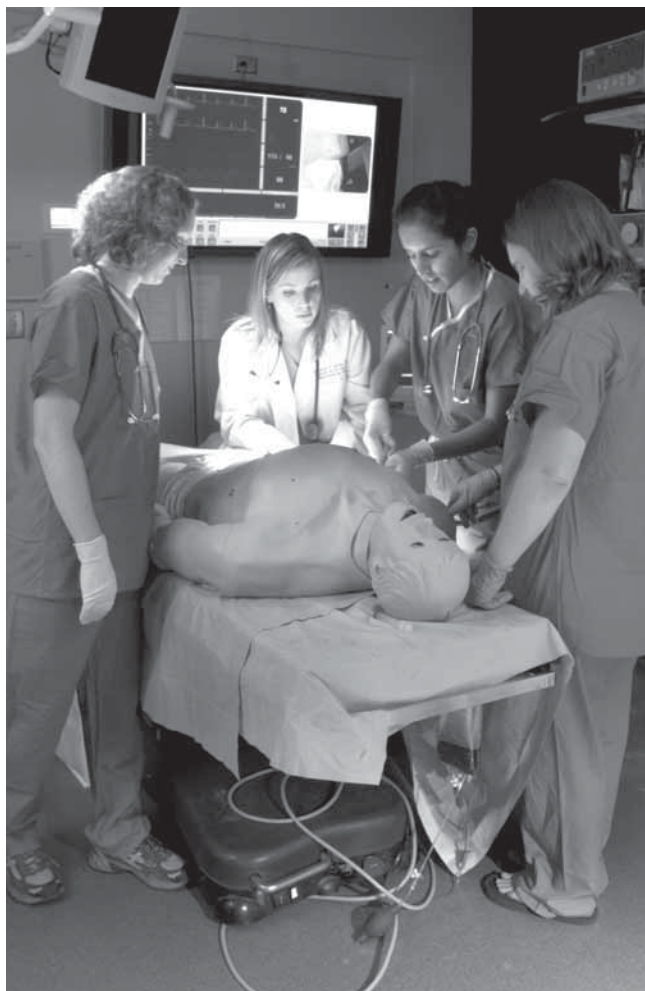
### **Campus Research Corporation**

The Corporation 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.

The Corporation is required to pay a monthly amount based on an annual operating budget for these services that is prepared by IBM. The Corporation has the right to review and consult with IBM in the process of preparing the operating budget. A quarterly analysis of the central utility and occupant electric expenses is prepared for each building and its occupants, and these costs are reconciled to the budget. Annual common service expenses are also reconciled to the budget. Based on these reconciliations, an additional charge or refund is assessed. Lease agreements between the Corporation and its tenants provide for either the inclusion of a factor for these costs in their monthly rent or a proration of these costs based on the quarterly budget and subject to

a quarterly reconciliation. Leases with one tenant include a maximum on the amount of cumulative annual capital expenditures that will be paid by the tenant. The Corporation is responsible for any capital expenditures allocated to this tenant in excess of the maximum.

In October 2004, the Corporation 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 Corporation entered into formal mediation and arbitration with IBM to enforce the provisions of the POA in 2008. During 2009, the Corporation and IBM entered into an agreement to settle the arbitration process. As part of the agreement, each party will be responsible for its costs incurred in connection with the arbitration process.



**INSTRUCTION:** The College of Medicine's Arizona Simulation Technology and Education Center helps doctors-in-training prepare for the real-world experience of an operating room by using computer-based mannequins. *Courtesy of AHSC Biomedical Communications*



## H. Condensed Financial Statements of Major Component Units

| <b>Major Component Units<br/>Statement of Financial Position<br/>June 30, 2009</b> | <b>The University<br/>of Arizona<br/>Foundation</b> | <b>Other<br/>Component<br/>Units</b> | <b>Total</b>          |
|--|---|--------------------------------------|-----------------------|
| <b>Assets</b>  |   |                                      |                       |
| Cash, cash equivalents and investments   | \$ 394,711,000                                      | \$ 18,007,000                        | \$ 412,718,000        |
| Pledges receivable   | 21,651,000  | 29,901,000                           | 51,552,000            |
| Property and equipment, net  | 3,616,000   | 11,225,000                           | 14,841,000            |
| Other assets   | 3,023,000   | 9,025,000                            | 12,048,000            |
| <b>Total Assets</b>  | <b>\$ 423,001,000</b>                               | <b>\$ 68,158,000</b>                 | <b>\$ 491,159,000</b> |
| <b>Liabilities and Net Assets</b>  |   |                                      |                       |
| <b>Liabilities</b>   |   |                                      |                       |
| Annuities payable and other trust liabilities                                      | \$ 15,492,000                                       |                                      | \$ 15,492,000         |
| Short-term and long-term debt  |   | \$ 9,109,000                         | 9,109,000             |
| Other liabilities  | 7,006,000   | 8,176,000                            | 15,182,000            |
| <b>Total Liabilities</b>   | <b>\$ 22,498,000</b>                                | <b>\$ 17,285,000</b>                 | <b>\$ 39,783,000</b>  |
| <b>Net Assets</b>  |   |                                      |                       |
| Unrestricted   | \$ 11,793,000                                       | \$ 13,302,000                        | \$ 25,095,000         |
| Temporarily restricted   | 107,445,000   | 33,651,000                           | 141,096,000           |
| Permanently restricted   | 281,265,000   | 3,920,000                            | 285,185,000           |
| <b>Total Net Assets</b>  | <b>\$ 400,503,000</b>                               | <b>\$ 50,873,000</b>                 | <b>\$ 451,376,000</b> |
| <b>Total Liabilities and Net Assets</b>  | <b>\$ 423,001,000</b>                               | <b>\$ 68,158,000</b>                 | <b>\$ 491,159,000</b> |

## I. Condensed Financial Statements of Major Component Units, Continued

| Major Component Units<br>Statement of Activities<br>Year Ended June 30, 2009 | The University<br>of Arizona<br>Foundation | Other<br>Component<br>Units | Total                  |
|--|--|-----------------------------|------------------------|
| <b>Revenues</b>  |  |                             |                        |
| Contributions  | \$ 60,715,000                              | \$ 2,734,000                | \$ 63,449,000          |
| Rental revenues  |  | 12,651,000                  | 12,651,000             |
| Investment income (loss)   | (73,652,000)                               | (1,650,000)                 | (75,302,000)           |
| Other income   | 9,292,000                                  | 4,721,000                   | 14,013,000             |
| <b>Total revenues</b>  | <b>\$ (3,645,000)</b>                      | <b>\$ 18,456,000</b>        | <b>\$ 14,811,000</b>   |
| <b>Expenses</b>  |  |                             |                        |
| Program services:  |  |                             |                        |
| Leasing related expenses   |  | \$ 8,883,000                | \$ 8,883,000           |
| Payments to the University   | \$ 35,806,000                              |                             | 35,806,000             |
| Payments on behalf of the University   | 12,130,000                                 | 6,348,000                   | 18,478,000             |
| Supporting services:   |  |                             |                        |
| Management and general   | 3,551,000                                  | 2,371,000                   | 5,922,000              |
| Fund raising   | 5,401,000                                  | 241,000                     | 5,642,000              |
| Other expenses   |  | 48,000                      | 48,000                 |
| <b>Total expenses</b>  | <b>\$ 56,888,000</b>                       | <b>\$ 17,891,000</b>        | <b>\$ 74,779,000</b>   |
| <b>Increase (decrease) in Net Assets</b>                                     | <b>\$ (60,533,000)</b>                     | <b>\$ 565,000</b>           | <b>\$ (59,968,000)</b> |
| Net Assets - Beginning of year   | 461,036,000                                | 50,313,000                  | 511,349,000            |
| Cumulative effect of accounting changes                                      |  | (5,000)                     | (5,000)                |
| <b>Net Assets - End of year</b>  | <b>\$ 400,503,000</b>                      | <b>\$ 50,873,000</b>        | <b>\$ 451,376,000</b>  |

## Credits

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### Design

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Inside Back Cover:  
Arizona Stadium, Courtesy of Balf Walker/Chris Mooney

Back Cover:  
PUBLIC SERVICE: Club Arizona members and Wilma Wildcat at UA gymnastics meet.  
*Courtesy of Arizona Athletics*  
RESEARCH: Arizona Cancer Center researchers and physicians translate discoveries made in the laboratory to new therapies for patients. *Courtesy of AHSC Biomedical Communications*  
INSTRUCTION: The teaching and performance space of the Stevie Eller Dance Theatre offers innovative design features such as the dance studio on the second floor, which is a glass box that functions as a display window to the UA mall. *Courtesy of AHSC Biomedical Communications*

### Contributions to this publication by the Financial Services Office staff are greatly appreciated:

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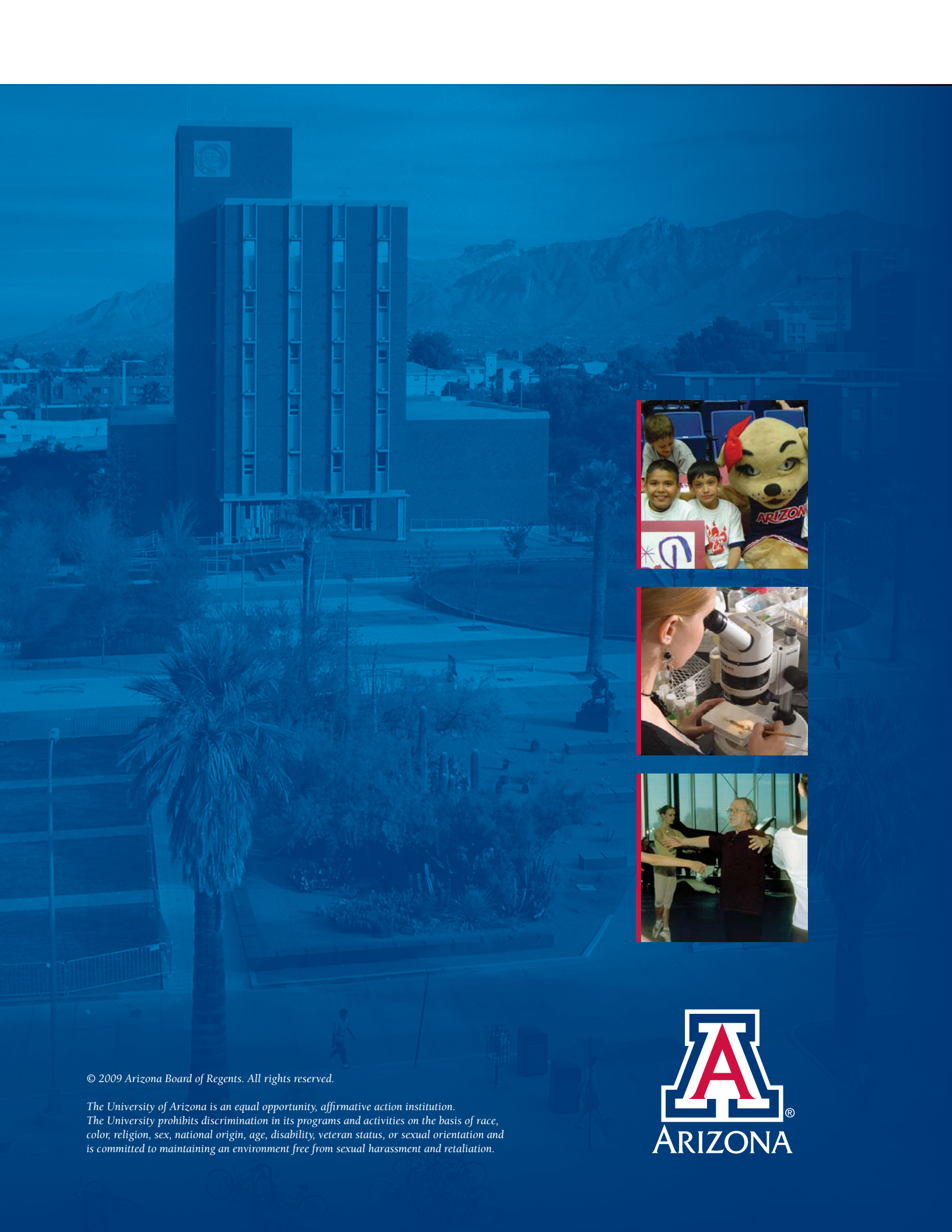
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