

**REPORT  
HIGHLIGHTS**  
FINANCIAL STATEMENT AUDIT

**Subject**

The University of Arizona issues financial statements annually. The University is responsible for preparing financial statements, maintaining strong internal controls, and demonstrating accountability for its use of public monies. As the auditors, our job is to determine whether the University has met its responsibilities.

**Our Conclusion**

The information in the University's financial statements is fairly stated in all material respects, and the financial statements can be relied on. The University generally maintained adequate internal controls. However, auditors identified weaknesses in the University's controls over purchasing, see page 4. This information will also be incorporated in the State of Arizona's *Single Audit Reporting Package*.



2008

Year Ended June 30, 2008

## The University's Condensed Financial Information

The University's financial information is presented in three financial statements: Statement of Net Assets; Statement of Revenues, Expenses, and Changes in Net Assets; and Statement of Cash Flows. The University's discretely presented component units are not included in the condensed financial information that follows.

### Statement of Net Assets

The Statement of Net Assets reports all of the University's assets and liabilities using the accrual basis of accounting, which is similar to the accounting that most private-sector institutions use. Net assets, which is the difference between assets

and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary below presents a condensed Statement of Net Assets as of June 30, 2008.

<b>Assets</b>	
Current	\$ 291
Noncurrent, other than capital	391
Capital assets, net	<u>1,314</u>
Total assets	<u>1,996</u>
<b>Liabilities</b>	
Current	191
Noncurrent	<u>934</u>
Total liabilities	<u>1,125</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	461
Restricted	253
Unrestricted	<u>157</u>
Total net assets	<u>\$ 871</u>

## Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Operating revenues and expenses are those that generally result from exchange transactions generated from providing instructional, research, and public and auxiliary services. All other revenues and expenses, such as state appropriations, nonexchange grants, and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets showed an increase of \$43 million. The summary to the right presents the University's revenues and expenses for the year ended June 30, 2008.

### Revenues and Expenses For the Year Ended June 30, 2008 (In Millions)

#### Operating Revenues

Tuition and fees	\$ 232
Grants and contracts	381
Auxiliary enterprises	154
Other	40
Total operating revenues	<u>807</u>

#### Nonoperating Revenues

State appropriations	417
Gifts	71
Grants and other appropriations	65
Other	99
Total nonoperating revenues	<u>652</u>
Total revenues	<u>\$1,459</u>

#### Operating Expenses

Educational and general	\$1,136
Auxiliary enterprises	141
Depreciation	98
Total operating expenses	<u>1,375</u>

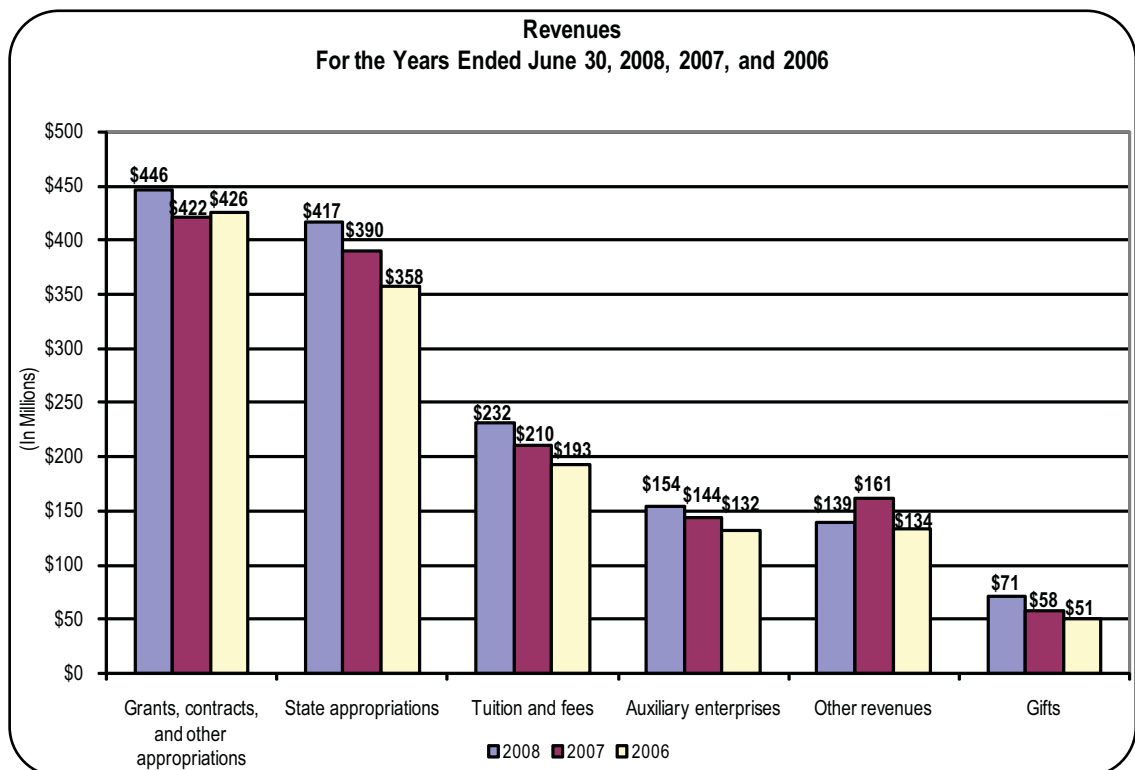
#### Nonoperating Expenses

Interest expense on debt	41
Total expenses	<u>\$1,416</u>

## Revenues

Between fiscal years 2006 and 2008, the University's total revenues have increased by \$165 million, or 13 percent. As shown in the chart below, the change primarily resulted from increases in state appropriations, tuition and fees, and auxiliary enterprises revenues. State appropriation revenues increased by \$59

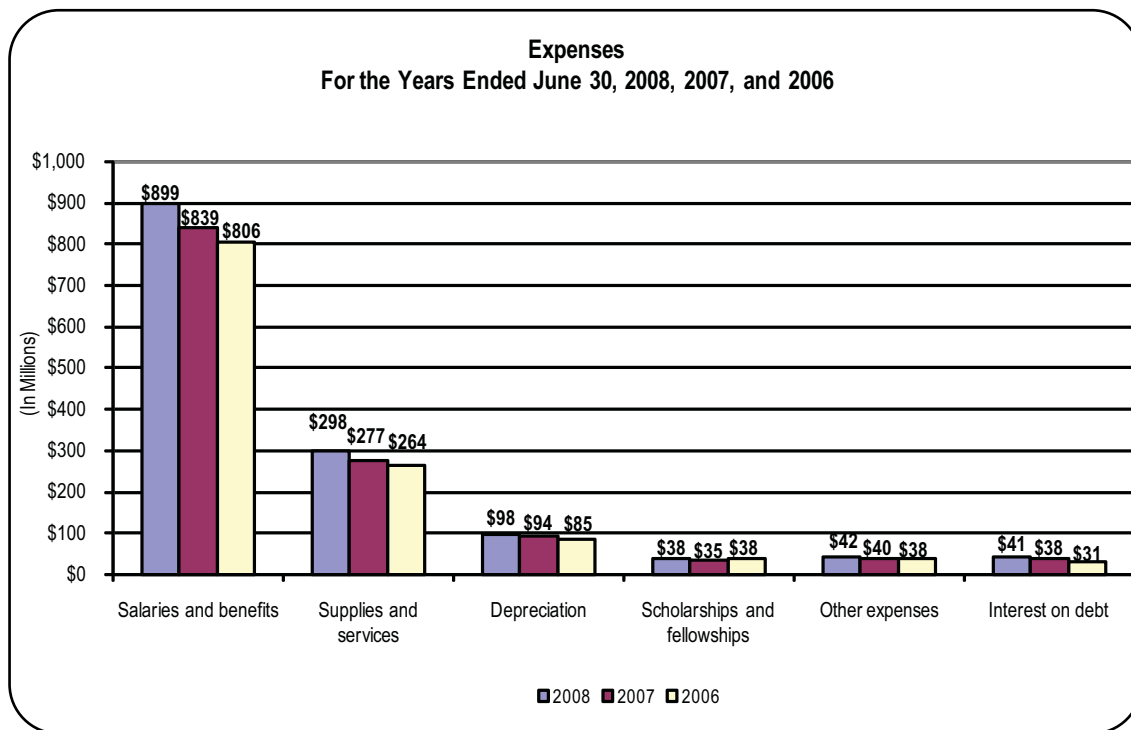
million, tuition and fees increased by \$39 million, and auxiliary enterprises increased by \$22 million during the period. These changes primarily resulted from appropriation increases to offset the cost of student enrollment growth; increased tuition rates; and increased revenues from the bookstore, student housing, and parking services.



## Expenses

Between fiscal years 2006 and 2008, the University's total expenses have increased by \$154 million, or 12 percent. As shown in the chart below, the change primarily resulted from increases in salaries and benefits, supplies and services expenses, and depreciation. Salaries and benefits increased by \$93 million, supplies and services increased by \$34

million, and depreciation expense increased by \$13 million during the period. These changes primarily resulted from rising wages and employee-benefit costs, increased operational expenses related to grants and contracts and auxiliary activities, such as the bookstore and student housing, and recently completed buildings and building improvements that are now being depreciated.



## Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2008.

**Cash Flows**  
For the Year Ended June 30, 2008  
(In Millions)

Cash flows from:	
Operating activities	\$(471)
Noncapital financing activities	596
Capital and related financing activities	(135)
Investing activities	<u>84</u>
Net increase in cash and cash equivalents	<u>\$ 74</u>

## The University Should Improve Internal Controls Over Purchasing

The University purchases over \$200 million each year from thousands of different vendors. Therefore, to help ensure that the University receives quality goods and services at the best possible price, it should establish and strictly adhere to purchasing policies and procedures. However, we noted that the University did not always follow its established competitive bidding policies and procedures when making purchases.

Also, the University lacked adequate controls to detect whether purchases were split to avoid spending limits established for purchasing cards. Finally, the University lacked adequate controls to ensure that employees were not involved in decisions to make university purchases from vendors in which those employees had an ownership or management interest.

### TO OBTAIN MORE INFORMATION

A copy of the full report  
can be obtained by calling  
**(602) 553-0333**



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