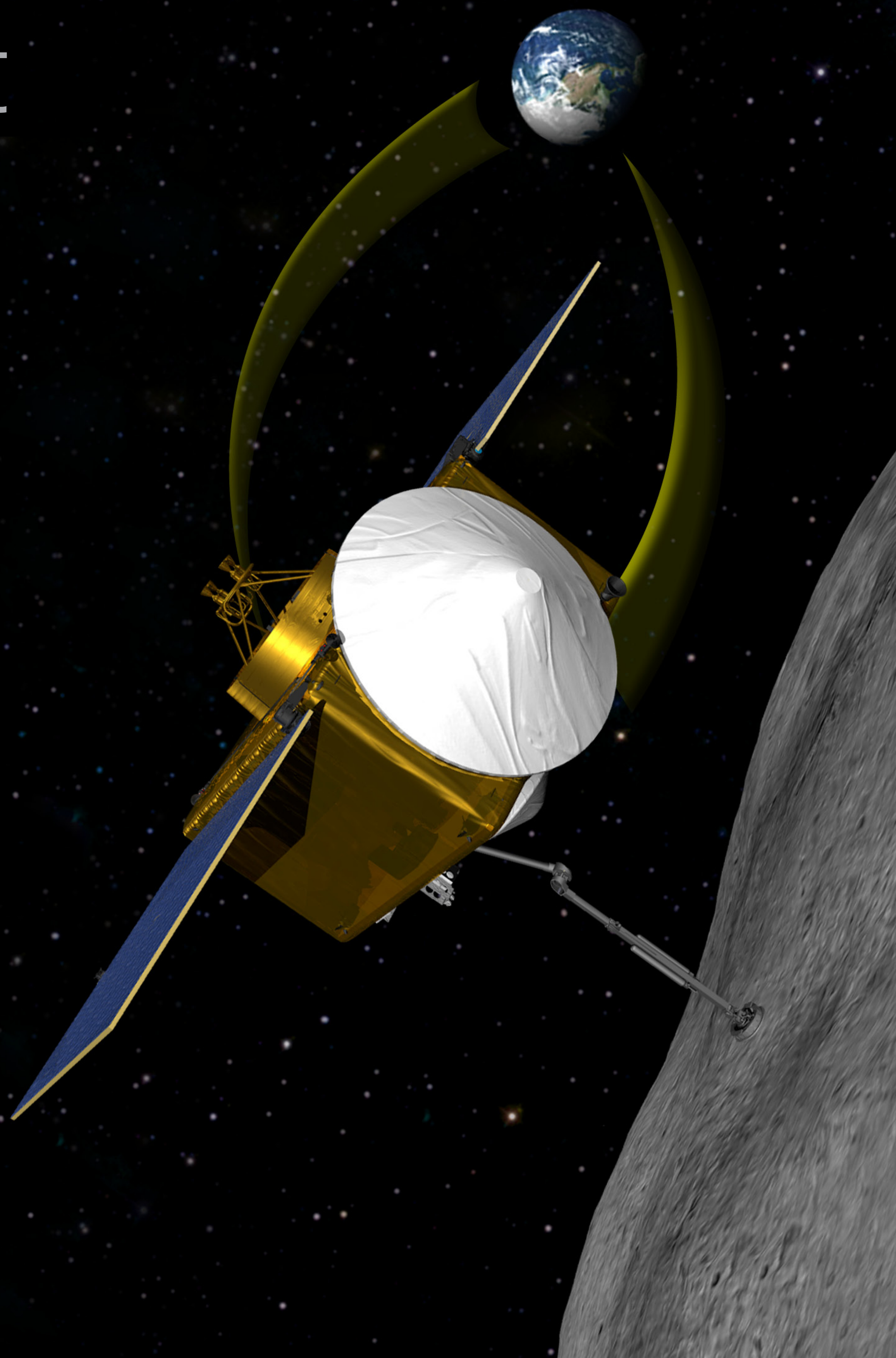
THE UNIVERSITY OF ARIZONA

Annual Financial Report

Year Ended
June 30, 2011



Courtesy of the Campus Arboretum

The University of Arizona holds a truly astonishing collection of plants from arid and semi-arid climates around the world. Many campus trees are the largest specimens in Arizona and have been designated as Great Trees of Arizona. The UA Heritage Trees are stately links to the University's past. Several are unique to the entire Southwest; a few were the first of their kinds to be planted in the Western Hemisphere.

Great Tree of Arizona – *Pistacia chinensis* (Chinese pistache); located at the southwest corner of the Communication building, on campus since the 1960s.

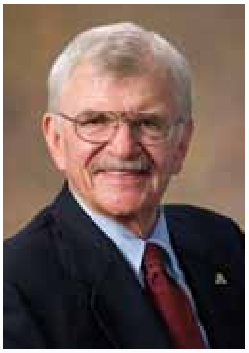
COVER:

NASA selected the University of Arizona to lead OSIRIS-REx, an $800 million sample-return mission to an asteroid. The mission will also study the feasibility of deflecting asteroids away from Earth orbits.

Conceptual image courtesy of NASA/Goddard/ University of Arizona

Table of Contents

© Scott Kirkessner



A Message from the President

It is my honor to write to you as the 20th person to carry the title of president of the University of Arizona, one of our country's great public research universities. For more than a century, the University of Arizona has improved the quality of life of the citizens of this state and for people all around the world.

But we are not an institution preoccupied with our past. On every major front – from boosting the economy to training the workforce to creating new knowledge that solves major societal problems – the UA is keenly focused on creating a better future for Arizonans.

It is no secret that the UA is in a period of transition, as we prepare for the arrival of our 21st president. But let me assure you that we are moving full-speed ahead in advancing the mission of this institution and will do so with the quality of people that you have come to expect from the UA.

The University of Arizona recently welcomed the largest, most accomplished and most diverse freshman class in the history of the University. In Fall 2010, UA received 26,626 admission applications, yielding a freshman class of 7,025 students.

Students from Arizona, other states and other countries are applying and enrolling at the UA at record levels. More than 38 percent of the freshman class consists of out-of-state and international students.

By any measurement, interest in and access to a UA education is at an all-time high – in spite of some historic challenges. Since 2008, state funding for the UA has been cut by $182 million, a reduction of more than 40 percent. While some of those funds were recovered by tuition increases, the University had to make painful, but necessary, cuts in order to preserve the quality our students and their families have come to expect.

While our state and country's fiscal challenges are well documented, they have not prevented the UA from achieving heights never-before-seen in our history – a testament to the extraordinary quality of UA faculty, students, staff, administrators, alumni and supporters.

The University of Arizona College of Medicine – Phoenix

The College of Medicine – Phoenix is a full, four-year program that was dedicated in October 2006. In May 2011 the first full class of medical students graduated. This group of 24 students excelled in their board exams and earned prestigious residency positions. More than half of the students will stay in Arizona for their residency and more than half have chosen primary care.

Tucson Festival of Books

In its third year, the Tucson Festival of Books has grown to be the fourth largest book festival in the country. More than 100,000 visitors converged on the UA campus for a weekend packed with author presentations, exhibits, children's programs and other learning activities. It is a wonderful example of how partnerships among community organizations and the University can generate an exceptional public service.

John Adams

University Communications / Pj McArdle, pjmcardle.com

AHSC BioCommunications

OSIRIS-REx

Earlier this summer, the UA was selected to lead the largest research project in our history. The UA will lead the OSIRIS-REx mission, valued at more than $800 million, where a spacecraft will orbit and explore an asteroid, and bring a sample of material back to Earth for further study. OSIRIS-REx will provide a significant boost to the Arizona economy – approximately $200 million will be spent in Tucson and across Arizona.

Biosphere 2

In July, Biosphere 2 officially became the property of the University of Arizona. CDO Ranching & Development donated 40 acres of real estate, the iconic Biosphere 2 facility, a state-of-the-art conference center, a three-megawatt power-generating plant and several other support and administrative buildings. The Philecology Foundation, founded by Edward D. Bass, is providing $20 million to support the ongoing science and operations.

A reflection on 2011 wouldn't be complete without recognizing how the year began, with the tragic Tucson shooting that killed six and injured several others – including Rep. Gabrielle Giffords. We will never forget the heroic response from everyone associated with The University of Arizona Medical Center, who provided life-saving care to many of the victims.

As we transition to a new fiscal year, we are cautiously optimistic that the state's toughest financial times are behind us; however, we will continue conservative and responsible financial practices in order to maintain the highest standards of teaching, research and public outreach.

Thank you for your support of this institution, as it is critical to us in realizing our mission of access, quality and discovery.

Sincerely,

Eugene G. Sander
President

© Kevin Brost

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 39,086 students through 18 colleges offering 345 degree programs and is ranked among the leading research universities in the country.

Enrollment Statistics – Academic Year 2010 - 2011

Undergraduate enrollment – Fall 2010	30,592
Graduate and Professional enrollment – Fall 2010	8,494
Degrees awarded – Bachelor's	5,827
Degrees awarded – Advanced	2,161
Tuition and fees for full-time student – Resident	$8,237
Tuition and fees for full-time student – Non-resident	$24,597

The University's 2,418 full-time equivalent faculty and 1,353 full-time equivalent graduate teaching and research assistants and associates educate a diverse student population. The student population is 52.0% female, 17.0% Hispanic, 6.5% Asian or Pacific Islander, 3.7% Black, and 2.9% Native American. It includes students from all 50 states and 100 foreign countries. International students totaled 6.6% of the Fall 2010 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 programs. During the past 25 years the University has emerged as one of the top research universities in the nation (18th among public research universities), according to the National Science Foundation (NSF). With its abundance of physical, biological, health sciences 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 (AAU), a prestigious group limited to North America's preeminent public and private research universities.

The University's outstanding research programs provide advances in applied and basic knowledge that fulfill the institution's obligation to the state and the nation. Such programs attract internationally 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, enriching instructional programs and providing tremendous education and research opportunities for the students, as well as helping to provide up-to-date facilities and equipment.

Strengths

In the most recent ranking (fiscal year 2009), the NSF ranked the University of Arizona as America's No. 2 university for research expenditures in the physical sciences, which includes astronomy, physics and chemistry. Overall, the UA's ranking among public research universities was 18th, and it was ranked as the nation's 26th institution among all public and private universities and colleges. A persistent theme in the University's history has been developing strengths based on its unique physical and cultural environment. Some examples follow:

- Funded by the National Institutes of Health (NIH), the New Ways to Fight Brain Cancer project focuses on the discovery of a deranged signaling protein that disrupts the proper migration of cells in the developing brain. The scientists will test whether it could be a target for new cancer-fighting drugs. An enzyme that normally establishes a sense of direction in developing brain cells might be a poorly understood cause of glioblastoma, the most common and devastating type of brain cancer. The NIH awarded $1.6 million to the University of Arizona to investigate ways to get the deranged signaling mechanism back on track and test whether the protein could serve as a candidate target for new cancer-fighting drugs.

- An invention by UA researchers may provide a way to deliver chemotherapeutic drugs to cancer tissues in controlled doses without harming healthy body cells. If successful, the invention of gold-coated liposomes could make chemotherapy more effective to destroy cancer cells and alleviate the harmful side effects that can result from the treatment. There still are many steps to take to test the invention before it could be used in cancer therapy. But if successful, gold-coated liposomes could provide a method to target chemotherapeutic drugs to cancer cells, non-invasively trigger the drugs' release using infrared light and provide a way for the body naturally to filter the drug from the bloodstream. One day, cancer patients could potentially receive chemotherapy treatments with confidence that the drugs will effectively destroy cancer cells, and without fear of suffering any harmful side effects.

- A University of Arizona engineer has developed a new instrument that tests for glaucoma, a leading cause of blindness that afflicts more than four million Americans. The device makes testing for the disease easier and less invasive. Cumbersome glaucoma tests that require a visit to the ophthalmologist could soon be history thanks to a home test developed by a University of Arizona engineer. The self-test instrument has been designed in Eniko Enikov's lab at the UA College of Engineering. Gone are the eye drops and need for a sterilized sensor. In their place is an easy-to-use probe that gently rubs the eyelid and can be used at home. "You simply close your eye and rub the eyelid like you might casually rub your eye," said Enikov, a professor of aerospace and mechanical engineering. "The instrument detects the stiffness and, therefore, infers the intraocular pressure." While the probe is simple to use, the technology behind it is complex, involving a system of micro-force sensors, specially designed microchips and math-based procedures programmed into its memory.

- Energy from compressed air stored underground is cheap, clean and renewable, and could even save lives. Researchers at the UA's School of Sustainable Engineered Systems are designing systems that will run refrigerators, buildings or power plants. Solar collectors and wind generators hold so much promise for clean energy, but they have a major flaw – they produce no power when the sun doesn't shine or the wind doesn't blow. "If all we had to do was to generate power when the sun is shining, we would actually be in good shape right now," said Ben Sternberg, a researcher in the University of Arizona's Compressed Air Energy Storage, or CAES, program. "The crucial issue now is finding economical ways to store energy for large-scale use, either home-by-home over the entire country, or utility scale." Batteries have traditionally been used to store energy, but they're expensive, have a limited number of charge-discharge cycles, and pose resource and disposal problems. The CAES group is developing cost-competitive energy-storage systems based on compressing air and storing it in man-made containers or below ground in natural reservoirs. When solar panels shut down and wind generators stop spinning, the compressed air is heated slightly and released to drive turbines that generate electricity. The compressed air can also be released directly to drive mechanical systems without being converted to electricity. Although CAES researchers are putting a high-tech spin on compressed air storage and its modern materials, sophisticated remote sensing gear, and computer analysis, it's a simple, well-tested and mature technology. Urban systems were built in European cities as early as 1870, and by the 1890s were storing and delivering power to factories and homes.

- UA researchers have received a prestigious grant to develop indicator molecules to track the onset of diabetes in patients before the disease develops – potentially paving the way to developing treatments. Several potential treatments have been proposed to prevent or postpone the development of diabetes. But currently there is no way to monitor whether the treatments are effective to delay its onset. Now, researchers at the University of Arizona are working to develop a method of determining at an early stage whether a person is developing diabetes and to track the effects of potential treatments. Ronald Lynch, professor of physiology at the UA's department of physiology; Sean Limesand, associate professor of animal science at the UA's department of animal sciences; and Josef Vagner, an associate research professor at the UA's BIO5 Institute, together received a $500,000 grant from the Juvenile Diabetes Research Foundation to develop an accurate way to target imaging contrast agents – molecules that can be viewed through a scanner – to beta cells in the human pancreas. The research could provide a much-needed method of monitoring pre-diabetic patients to determine whether new therapies to curb development of the disease are effective. Type 1 diabetes, often referred to as juvenile diabetes because of the large proportion of people who develop it at a young age, occurs when the body's immune system malfunctions, eliminating normal beta cells from the pancreas. Beta cells are needed to secrete insulin, a protein that instigates removal of glucose from the bloodstream. Without beta cells to secrete insulin, glucose levels in the bloodstream become too high, presenting dangerous health consequences that will lead to death if untreated. Thus, type 1 diabetics must constantly monitor their blood glucose levels and periodically inject calculated amounts of insulin to stay alive. "One of the biggest problems in diabetes research is how to monitor the health of beta cells," said Lynch. "With current methods, patients have to lose about 90 percent of their beta cells before they are diagnosed as diabetic."

- The National Aeronautics and Space Administration (NASA) has selected the University of Arizona to lead a sample-return mission to an asteroid. The team is led by Michael Drake, director of the UA's Lunar and Planetary Laboratory. NASA Goddard Space Flight Center in Greenbelt, Maryland will manage the mission for NASA. Lockheed Martin will build the spacecraft. The OSIRIS-REx mission is budgeted for approximately $800 million, excluding the launch vehicle. The target asteroid – named 1999 RQ36 after the year it was discovered – measures 575 meters (one-third of a mile) in diameter. 1999 RQ36 is a time capsule from the early solar system rich with organic compounds that may have seeded life on Earth. "OSIRIS-REx will explore our past and help determine our destiny," said Drake. "It will return samples of pristine organic material that scientists think might have seeded the sterile early Earth with the building blocks that led to life. Such samples do not

© Scott Kirkessner

currently exist on Earth. OSIRIS-REx will also provide the knowledge that will guide humanity in deflecting any future asteroid that could collide with Earth, allowing humanity to avoid the fate of the dinosaurs." OSIRIS-REx stands for Origins, Spectral Interpretation, Resource Identification, Security-Regolith Explorer. Scheduled for launch in 2016, the OSIRIS-REx mission will return the first samples ever taken from a special type of asteroid holding clues to the origin of the solar system and likely organic molecules that may have seeded life on Earth. OSIRIS-REx will also investigate an object potentially hazardous to humanity. 1999 RQ36 has a one-in-1,800 chance of impacting the Earth in the year 2182. "OSIRIS-REx will usher in a new era of planetary exploration," said Dante Lauretta, the mission's deputy principal investigator and an associate professor at the UA's Lunar and Planetary Laboratory. "For the first time in space-exploration history, a mission will travel to, and return pristine samples of a carbonaceous asteroid with known geologic context. Such samples are critical to understanding the origin of the solar system, Earth, and life." "OSIRIS-REx will have an extraordinary impact on the University of Arizona and our entire state," said former UA President Robert N. Shelton. "For decades, our Lunar and Planetary Laboratory has made immeasurable contributions to our knowledge of the universe. This mission will continue and advance that tradition, with unique opportunities for our students and researchers."

- The Center for Creative Photography (CCP) at the University of Arizona received a $3.5 million estate gift from the late Arthur J. Bell, a former photographer and professor at Columbia College in Chicago. The gift was made in recognition of the international importance of the CCP, said director Katharine Martinez. It was Bell's final nod to his passion for photography – a passion that grew with his exposure to famous American photographers Harry Callahan and Aaron Siskind, both of whom house their archives in the CCP. Private funding aids the CCP's preservation of the work and archives of renowned international photographers. Using Bell's gift, the CCP is creating a permanent full-time position, the Arthur J. Bell Senior Photograph Conservator. The new position will plan and implement short-and long-term goals pertaining to the care of photographic materials in the center's collections and recruit staff for the CCP's conservation lab. "The quality and size of the center's collections underscore the need for a full-time conservator," Martinez said. "This is the culmination of a significant effort to create a conservation program that began in 2008 with the construction of a state-of-the-art photography conservation lab in the center." Bell's generous estate gift provides a substantial boost for the center, which relies heavily on endowments and outright private gifts for support. The Center for Creative Photography, part of the UA Libraries, holds more archives and individual works by 20th and 21st century North American photographers than any other museum in the world. The archives of more than 200 major American photographers encompasses 4.5 million items, including negatives, contact sheets, proof prints, diaries, correspondence, publications and 90,000 fine prints from such famous photographers as Ansel Adams, W. Eugene Smith, Edward Weston, Lola Alvarez Bravo and Garry Winogrand.

Opportunities and Challenges

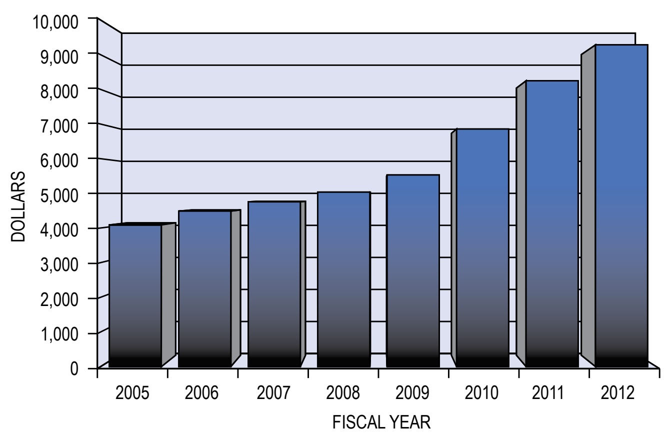
The University has been meeting the needs of the people of the State through its strong liberal arts program and nationally acclaimed expertise in business, engineering, and natural and medical sciences. Given continuing increases in population and the potential for economic growth, the State will increasingly 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, 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 through 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 American Recovery and Reinvestment Act (ARRA) funds from the NIH, NSF and NASA 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 depending upon the ebb and flow of sales tax revenues. Resident undergraduate tuition continues to be among the lowest of our peer public universities in the nation. So long as financial aid resources increase, there is some market capacity for modest tuition increases in the future.

Resident Undergraduate Tuition and Fees FY 2005 - 2012



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 medical school 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 post-secondary education 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.

Independent Auditors' Report

DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

MELANIE M. CHESNEY
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, 2011, 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, 2011, 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, 2011, 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 44th 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 11, 2011

Courtesy of the Campus Arboretum

Heritage Tree – *Phoenix dactylifera* (true date palm); east of Old Main, planted on campus in 1955.

Courtesy of Diane Schaller

Likins Hall – Named for former UA president Peter Likins, this new residence hall is designed around a hacienda-style courtyard and houses 369 students.

Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) provides an overview of the University of Arizona's financial performance based on currently known facts, decisions and conditions and is designed to assist readers in understanding the accompanying financial statements. These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) principles and focus on the University as a whole. The MD&A, financial statements and notes, are the responsibility of University management. The MD&A should be read in conjunction with the financial statements and notes.

The financial statements encompass the University and its discretely presented component units; however, the MD&A focuses only on the University. Information relating to the component units can be found in their separately issued financial statements. The University's financial report includes three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. While audited financial statements for the 2009-2010 fiscal year are not presented with this report, condensed data will be presented in the MD&A to illustrate certain increases and decreases.

Overview of Financial Statements

Statement of Net Assets

The Statement of Net Assets presents the financial position of the University at fiscal year end. From the data presented, readers of this statement are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenses of the University. The change in net assets is one indicator of whether the financial condition has improved or worsened during the year when considered with nonfinancial facts, such as enrollment levels and the condition of facilities.

CONDENSED SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS

A comparison of the University's assets, liabilities and net assets (in thousands of dollars) at June 30, 2011, and at June 30, 2010, is as follows:

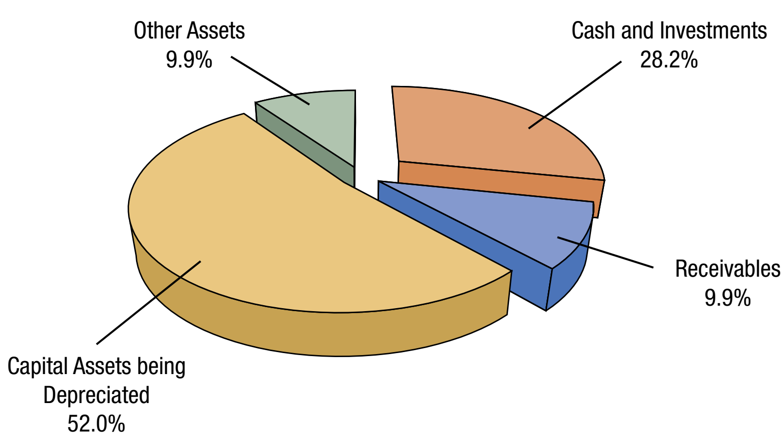
	2011	2010	% Change
Other assets	$ 956,681	$ 931,390	3%
Capital assets	1,497,586	1,402,259	7%
Total assets	**$ 2,454,267**	**$ 2,333,649**	**5%**
Other liabilities	$ 178,623	$ 139,759	28%
Long-term liabilities	1,206,557	1,220,287	-1%
Total liabilities	**$ 1,385,180**	**$ 1,360,046**	**2%**
Net assets			
Invested in capital assets, net of related debt	$ 522,909	$ 490,309	7%
Restricted - nonexpendable	115,307	101,263	14%
Restricted - expendable	137,768	127,599	8%
Unrestricted	293,103	254,432	15%
Total net assets	**$ 1,069,087**	**$ 973,603**	**10%**

Total Assets

Assets are what the University owns and are measured in current value, except for capital assets, which are recorded at historical cost less applicable accumulated depreciation. The following table and chart present total assets by dollars and percent:

Cash and Investments	$ 692,476	28.2%
Receivables	241,756	9.9%
Capital Assets being Depreciated	1,276,959	52.0%
Other Assets	243,076	9.9%
Total Assets	**$2,454,267**	**100.0%**

Total assets for the University increased by $120.6 million during the 2010-2011 fiscal year. There was an increase in net capital assets of $95.3 million. During the 2010-2011 fiscal year, disbursements of $140.3 million were made primarily for construction on buildings.



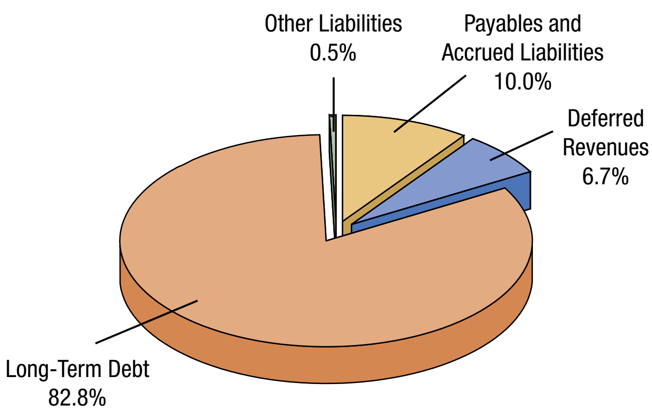
Courtesy of the Campus Arboretum

Heritage Tree – *Olea europaea* (olive); many northeast of Main Gate, all planted in the late 1800s.

Total Liabilities

Liabilities are what the University owes to others or what it has collected from others before it has provided the services. The following table and chart present liabilities by dollars and percent:

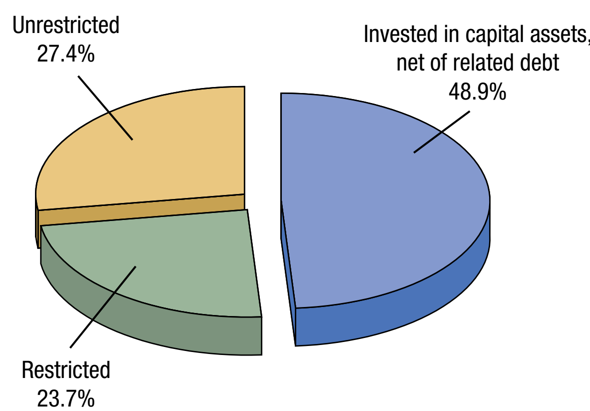
Payables and Accrued Liabilities	$ 138,699	10.0%
Deferred Revenues	93,053	6.7%
Long-Term Debt	1,146,893	82.8%
Other Liabilities	6,535	0.5%
Total Liabilities	**$ 1,385,180**	**100.0%**



Total liabilities increased by $25.1 million due primarily to construction payables for the Phoenix Biomedical Campus, 6th St. residence halls and the deferral of revenues from an inter-governmental agreement (IGA). Long-term liabilities decreased by $13.7 million primarily due to the liquidation and disbursement of the NAU Arizona Student Financial Aid Trust (ASFAT) endowment.

Total Net Assets

Net assets are divided into three categories. Invested in capital assets, net of related debt, represents the historical cost of capital assets reduced by the balance of related outstanding debt and accumulated depreciation. Restricted net assets include amounts that have been restricted for use by an external party and are further broken down into nonexpendable and expendable. Restricted nonexpendable net assets are those that are required to be retained in perpetuity. Restricted expendable net assets include amounts restricted by external parties for such things as debt service, academic and departmental uses, scholarships and fellowships and capital projects. Finally, unrestricted net assets include amounts institutionally designated or committed to support specific academic and research programs and for working capital requirements. The following chart represents net asset categories by percent:



Unrestricted net assets increased 15% over the prior fiscal year from $254.4 million to $293.1 million primarily because of a $7.5 million reimbursement in the 2010-2011 fiscal year for construction expenses incurred in the 2009-2010 fiscal year for the Health Sciences Education building in Phoenix and an increase of $38.7 million in summer session and tuition revenue, program fees and locally retained fees offset by increased scholarship and operating expenses.

Health Sciences Education Building

Statement of Revenues, Expenses and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the University's revenues earned and the expenses incurred during the 2010-2011 fiscal year, regardless of when cash is received or paid. Activities are reported as either operating or nonoperating. Generally, operating revenues are earned in exchange for providing goods and services. Operating expenses are incurred in the normal operation of the University, including a provision for depreciation on capital assets. Certain revenue sources that the University relies on for operations, including State appropriations, gifts, grants and investment income are required by GASB Statement No. 35 to be classified as nonoperating revenues. Nonoperating expenses include capital financing costs.

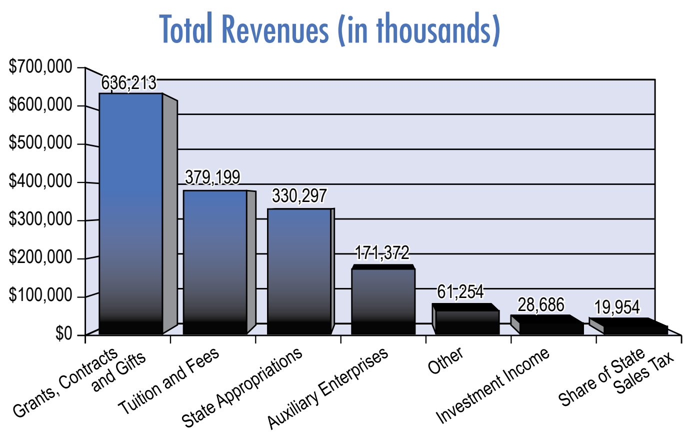
CONDENSED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

A comparison of the University's operations (in thousands of dollars) for the year ended June 30, 2011, and for the year ended June 30, 2010, is as follows:

	2011	2010	% Change
Total revenues			
Student tuition and fees	$ 379,199	$ 329,586	15%
Grants, contracts and other appropriations	548,858	538,081	2%
State appropriations	330,297	330,297	0%
Auxiliary enterprises	171,372	165,594	4%
Share of State sales tax revenues	19,954	20,102	-1%
Gifts	87,355	79,164	10%
Investment income	28,686	18,133	58%
Other operating revenues	47,405	38,677	23%
Other nonoperating revenues, net	13,849	16,063	-14%
Total revenues	**$ 1,626,975**	**$ 1,535,697**	**6%**
Total expenses			
Instruction and academic support	$ 493,588	$ 458,331	8%
Research and public service	479,480	465,378	3%
Student services and scholarships	87,906	82,924	6%
Institutional support and operation of plant	177,644	169,422	5%
Auxiliary enterprises	158,914	144,096	10%
Depreciation	107,770	101,226	6%
Interest expense on debt	50,447	45,077	12%
Total expenses	**$ 1,555,749**	**$ 1,466,454**	**6%**
Income before capital and endowment additions	**$ 71,226**	**$ 69,243**	3%
Capital and endowment additions	24,258	23,183	5%
Increase in net assets	**$ 95,484**	**$ 92,426**	**3%**
Net assets, beginning of year	**973,603**	**881,177**	**10%**
Net assets, end of year	**$ 1,069,087**	**$ 973,603**	**10%**

Total Revenues

The following chart represents total revenues for the 2010-2011 fiscal year:



Student tuition and fees: Tuition and fees rose by $49.6 million due to approved tuition and fee increases. In-state undergraduate resident tuition and fees increased by $1,395, or 20.4%, to $8,237, while out-of-state undergraduate tuition and fees increased by $2,346, or 10.5%, to $24,597.

Grants, contracts and other appropriations: Operating grants and contracts revenues increased by $32.5 million or 7.6% in fiscal year 2011. 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. One of the major contributors to the increase in grants and contracts operating activity was grant revenue in the amount of $17.7 million from an inter-governmental agreement with Pima County. Non-exchange grants and appropriations, reported as nonoperating revenues, decreased $21.8 million from $110.0 million in fiscal year 2010 to $88.2 million in fiscal year 2011, a decrease of 19.8%, primarily due to a reduction of $27.6 million in Federal Fiscal Stabilization Funds received under ARRA.

State appropriations and share of state sales tax revenues: Appropriations, including the University's share of state sales taxes, were essentially flat as the state maintained its funding for the University. The share of sales tax revenues from the Technology Research Initiative Fund (TRIF) decreased slightly, but also remained flat in year over year comparisons.

Auxiliary Enterprises: Revenues from auxiliary enterprises increased 3.5% from $165.6 million in fiscal year 2010 to $171.4 million in fiscal year 2011 primarily due to increases in the bookstore, residence life and student union revenues.

Investment income: A summary of investment income (in thousands of dollars) for the years ended June 30, 2011 and 2010 follows:

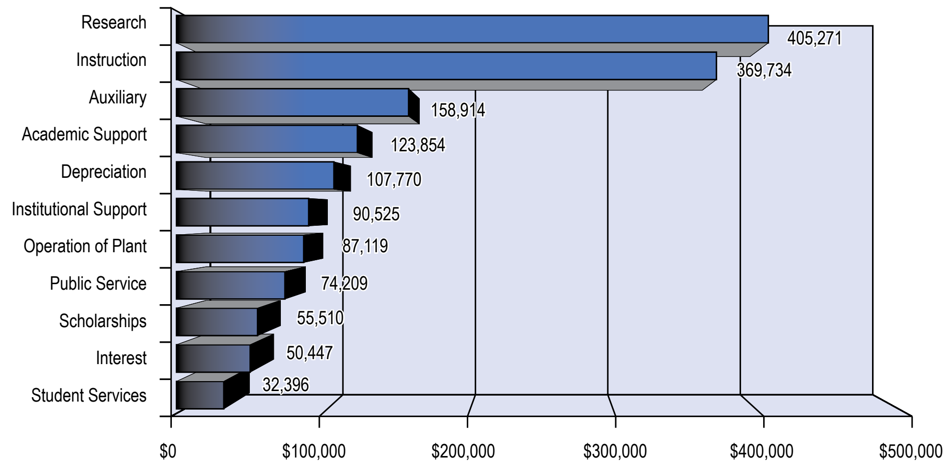
	2011	2010	% Change
Pooled operating funds	$ 10,524	$ 6,804	54.7%
Deposits with trustees for capital projects	1,023	3,692	-72.3%
Endowments	17,139	7,637	124.4%
Total investment income	**$ 28,686**	**$ 18,133**	**58.2%**

Pooled operating funds are invested in short-term instruments. During the year, the University contracted with Public Financial Management (PFM) Asset Management Group to assist in the investment of pooled operating funds. The net increase in pooled operating funds investment income is attributable to aggressive investing in an anemic interest rate environment. Due to the fact that deposits with the trustees for capital projects are invested in short-term debt instruments, interest is dependent upon the current interest rate environment and the amount available to be invested. Participation in public markets through externally managed funds generated net gains in endowments during fiscal year 2011 due to an overall increase in both debt and equity markets as investors risk appetites returned.

Total Expenses

The following chart represents total expenses for the 2010-2011 fiscal year:

Total Expenses (in thousands)

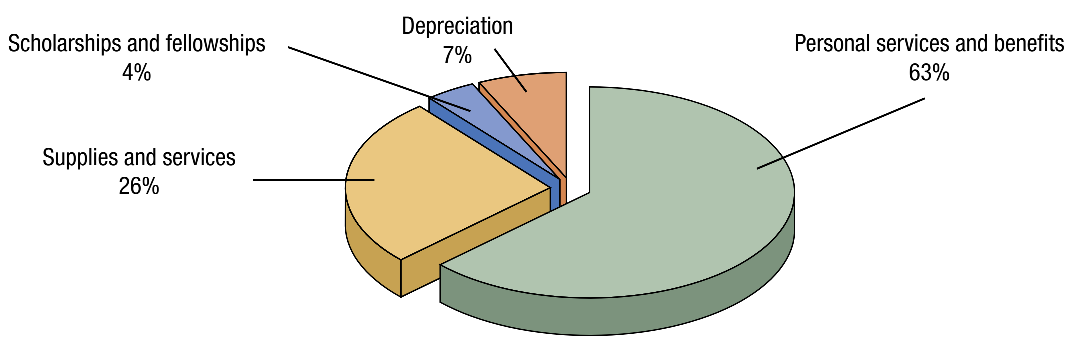


Total expenses increased by $89.3 million or 6.1% in fiscal year 2011. Expenses for research increased by $10.3 million compared to last fiscal year, due in part to the availability of ARRA funding. Expenses for academic support increased $23.4 million due to increased contract activity by the College of Medicine – Phoenix and an inter-governmental agreement with Pima County. Expenses for auxiliary enterprises increased $14.8 million due to increases in intercollegiate athletics, bookstore and student union expenses. Interest expense on debt increased by $5.3 million or 11.8% from $45.1 million in fiscal year 2010 to $50.4 million in fiscal year 2011 due to the increased debt service for newly issued debt.

Operating Expenses by Natural Classification (in thousands)

In addition to programmatic (functional) classification of operating expenses, a summary of the University's expenses by natural classification as listed in Note 11 for the years ended June 30, 2011 and 2010 follows:

Natural Classification of Operating Expenses:	**2011**	**2010**	**% Change**
Personal services and benefits	$ 953,033	$ 912,764	4%
Supplies and services	393,606	355,865	11%
Scholarships and fellowships	50,893	51,522	-1%
Depreciation	107,770	101,226	6%
Total Operating Expenses	**$ 1,505,302**	**$ 1,421,377**	**6%**



Condensed Statement of Cash Flows

The following summarizes cash flows for the 2011 and 2010 fiscal years (in thousands):

Cash Provided By (Used For):	2011	2010
Operating Activities	$ (319,362)	$ (385,905)
Noncapital Financing Activities	522,749	559,649
Capital Financing Activities	(219,893)	(102,838)
Investing Activities	(128,132)	(41,515)
Net Increase (Decrease) in Cash and Cash Equivalents	**(144,638)**	**29,391**
Cash and Cash Equivalents, Beginning of Year	198,461	169,070
Cash and Cash Equivalents, End of Year	**$ 53,823**	**$ 198,461**

The statement of cash flows provides additional information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement assists in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from the capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show all the uses of cash and cash equivalents to purchase investments, and all the increases in cash and cash equivalents as a result of selling investments or earning income on cash and investments. Finally cash flows from the noncapital financing activities include State appropriations, donations and other activities not covered in other sections.

Capital and Debt Analysis

The University of Arizona manages its buildings and infrastructure through a formal evaluation process by internal committees, the Arizona Board of Regents, and the State Joint Committee on Capital Review. The process starts with the preparation of 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 presents the University strategic plan on space and capital acquisitions to meet short-term and long- term requirements. It outlines the current capital funding allocation for the University, specifically for building renewal, deferred maintenance, facility leases and other critical construction projects. The CIP covers a three year period and is focused on addressing space deficiencies in academic, research, student housing and support services facilities. The CIP also provides current debt information and demonstrates the University's ability to issue debt instruments to finance capital acquisitions.

The University continues to experience reductions in state appropriations and certain revenues due to the weak economy. This poses a challenge for the University to strategically plan and budget for operations and capital investment. Management must prioritize and allocate the limited resources to meet the University's core mission, but at the same time make capital investment in its buildings and infrastructure as space deficiencies continue to exist. Student enrollment continues to increase every year and the University's direct research activities have increased by 17% over the last five years.

In order to maximize space utilization, the University prepares a space inventory annually to determine usage and allocate space. With limited resources, the University's capital investment has been in projects with the highest priorities or projects that can generate revenues to fund debt service. These projects include student dormitories (Likins Hall and Arbol de la Vida Hall), Building Renewal Projects, Bryant Banister Tree-Ring Building, Biosphere 2 Landscape Evolution Observatory, and Arizona Bioscience Park Infrastructure Phase I and II.

- The student dormitories were completed in fiscal year 2010-11. Likins Hall is a 120,865 gross square foot complex of inter-connected buildings that range from four to six stories high consisting of 369 beds. Arbol de la

Vida Hall is also a complex of inter-connected buildings that range from four to six stories high consisting of 207,500 gross square feet and 719 beds. These new dormitories will provide additional housing and valuable on-campus experiences to first year students. The buildings were constructed of high quality, durable, maintainable materials and building systems designed to maximize energy efficiency and minimize operational, repair and replacement costs. They meet the United States Green Building Council's LEED Certification. Cost for the two buildings was $159.3 million.

- The Building Renewal Projects address energy efficiency and life and safety issues. These projects consist of fire alarm and sprinkler systems, building code compliance upgrades for electrical and elevators, roofing repairs, mechanical system replacements, building structural components, and heating, ventilation and air conditioning replacements. Total cost for these building renewal projects is $68 million. The University is funding these projects through the issuance of bonds authorized by the Stimulus Plan for Economic and Educational Development (SPEED) initiative passed by the State legislature. The purpose of SPEED is to provide an important economic stimulus to the State economy through construction spending. It involved a partnership between the University and the State of Arizona in making financial commitments to fund critically needed building construction and improvements.

- The Bryant Bannister Tree-Ring Building will relocate the Laboratory of Tree-Ring Research (LTRR) into a new 28,200 gross square foot building. LTRR was housed in a section below the football stadium for more than 70 years. The new building will provide new laboratories, support space, and offices for LTRR's research programs, as well as public outreach. The project will cost $12 million of which $9 million is gifted by a generous donor. The remaining $3 million will be funded by University funds.

Courtesy Richärd & Bauer Architecture

Architectural rendering of Bryant Bannister Tree-Ring Building

Courtesy of Diane Schaller

Arbol de la Vida Hall – (Tree of Life) The hall houses 719 honors students and stretches east from Euclid to Tyndall Avenues. It is split into five buildings connected by bridges. With a copper-colored face and etched glass, Arbol has a canyon theme with curving corridors.

- The Biosphere 2 Landscape Observatory is an expansion to the existing facility. It will house activities such as research, teaching, outreach and life-long learning about Earth, its living systems and its place in the universe. The new observatory will provide scientists a controlled environment to investigate soil-water interaction in various soils with different degrees of compaction. The expansion is currently under construction at a cost of $4.8 million.

- Arizona Bioscience Park Infrastructure Phase I and II is a project to install roads, water systems, infrastructure to support utilities for gas, electricity and telecommunications, and landscaping on a 65 acre property to develop the new Arizona Bioscience Park (BioPark). The BioPark is an extension of the University's Science and Technology Park, a research and development facility dedicated to the transfer of technology from the laboratory to the marketplace. It will be at the forefront of urban design and development with emphasis on collaborating with high technology companies. The project is being developed at a cost of $8.6 million. The University received a federal grant of $4.7 million to fund the project and is required to provide $3.9 million as matching funds.

Courtesy of the Campus Arboretum

Heritage Tree – *Platanus occidentalis* (American sycamore); southeast side of Flaundrau Planetarium, planted on campus in 1976.

The University generally finances capital improvements and acquisitions through the issuance of System Revenue Bonds (SRBs) and Certificates of Participation (COPs). Prior to issuing any Bonds or COPs, the University must submit a financing and funding plan to the Arizona Board of Regents for approval and to the State Joint Committee on Capital Review for their review. The amount of debt the University is able to issue is governed by State law (Arizona Revised Statutes §15-1683) and ABOR Policy 7-102(D)(3) using a debt ratio limit of 8%. The debt ratio is determined by annual debt service on Bonds and COPs as a percentage of total operating expenses and debt service. At June 30, 2011 the University's debt ratio was 5.5%. The University's credit ratings on its outstanding System Revenue Bonds are Aa2 by Moody's and AA by Standard and Poor's.

During fiscal year 2010-11, the University issued SPEED Revenue Bonds Series 2011 for $39.6 million. The Series 2011 Bonds were issued to finance building renewal projects mentioned in the previous paragraph. Detailed debt issuance and debt service information is available in Note 8 of the accompanying notes to the financial statements.

Economic Outlook

The State of Arizona, like the rest of the nation continued to experience weak economic conditions, which resulted in a negative effect on the State's revenue projections. With the ending of federal ARRA assistance, the state cut $1.1 billion from the FY 2011-12 budget. As expected, the cuts came largely from Medicaid ($524 million) and education (K-12 at $199 million and universities at $198 million). Last year, through the efforts of Governor Brewer, a temporary three year one cent sales tax increase was placed on the May 2010 ballot. The citizens of the State of Arizona responded with a resounding approval of the ballot initiative thereby preventing significant cuts to the 2011 fiscal year budget. To balance the State budget, the legislature cut FY 2012 appropriations to the University by $80.8 million. If the national economy continues to sputter, it is anticipated that State revenues will continue to decline as well in FY 2012.

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 these programmatic and institutional changes 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 for the 2012 fiscal year. As part of the authorization, the Regents asked the University to use current reserves to offset the tuition increase for Arizona undergraduates. This amounted to an annual reduction of $750 for resident undergraduates. This one-time reduction will not be available for fiscal year 2013. While the University and Arizona Board of Regents recognize the extraordinary fiscal pressures the State of Arizona has been managing, it may become necessary to continue raising tuition to offset the declining State appropriations.

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

Statement of Net Assets

June 30, 2011 *(in thousands of dollars)*

Assets

Current assets	
Cash and cash equivalents (Note 3)	$ 35,736
Short-term investments (Note 3)	35,810
Receivables:	
Accounts receivable (net of allowances of $1,257)	62,186
Receivable from the State of Arizona	78,930
Government grants receivable	69,684
Student loans (net of allowances of $342)	1,718
Inventories	8,586
Deferred expenses	2,719
Total current assets	**$ 295,369**
Noncurrent assets	
Restricted cash and cash equivalents (Note 3)	$ 18,087
Restricted investments with bond trustees (Note 3)	178,059
Long-term investments (Notes 3 and 4)	241,020
Endowment investments (Note 3)	183,764
Student loans receivable (net of allowances of $2,300)	14,749
Long-term receivables	14,489
Deferred expenses	11,144
Capital assets, not being depreciated (Note 5)	220,627
Capital assets, being depreciated, net (Note 5)	1,276,959
Total noncurrent assets	**$ 2,158,898**
Total Assets	**$ 2,454,267**

Liabilities

Current liabilities	
Accounts payable	$ 50,095
Accrued payroll and benefits	50,046
Accrued compensated absences (Note 7)	6,841
Deferred revenue and deposits (Note 6)	82,783
Funds held for others	599
Current portion of long-term debt (Note 8)	
To be funded by University revenues	35,759
To be funded by State of Arizona appropriations and State Lottery monies	5,685
Total current liabilities	**$ 231,808**
Noncurrent liabilities	
Deferred revenue and deposits (Note 6)	$ 10,270
Accrued compensated absences (Note 7)	31,717
Funds held for others	5,936
Long-term debt (Note 8)	
To be funded by University revenues	779,158
To be funded by State of Arizona appropriations and State Lottery monies	326,291
Total noncurrent liabilities	**$ 1,153,372**
Total Liabilities	**$ 1,385,180**

Net Assets

Invested in capital assets, net of related debt	$ 522,909
Restricted for nonexpendable:	
Endowments	95,645
Student loans	19,662
Restricted for expendable:	
Scholarships and fellowships	26,075
Academic/department uses	88,893
Capital projects	6,065
Debt service	16,735
Unrestricted	293,103
Total Net Assets	**$ 1,069,087**

See Notes to Financial Statements

Statement of Financial Position - Component Units

June 30, 2011 *(in thousands of dollars)*

Assets

Cash and cash equivalents	$	68,354
Pledges receivable		29,547
Other receivables		3,505
Investments in marketable securities		596,743
Other investments		5,283
Property and equipment, net		29,720
Other assets		10,766
Total Assets	**$**	**743,918**

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	$	3,584
Fair value of endowment managed for the University		165,192
Annuities payable and other trust liabilities		17,620
Deferred revenue and deposits		7,091
Short-term and long-term debt		10,487
Other liabilities		1,658
Total Liabilities	**$**	**205,632**
Net Assets		
Unrestricted	$	31,848
Temporarily restricted		138,951
Permanently restricted		367,487
Total Net Assets	**$**	**538,286**
Total Liabilities and Net Assets	**$**	**743,918**

See Notes to Financial Statements

Statement of Revenues, Expenses and Changes in Net Assets

Year Ended June 30, 2011 *(in thousands of dollars)*

Operating Revenues

Student tuition and fees, net of scholarship allowances of $158,237	$	379,199
Federal grants and contracts		352,835
State and other government grants and contracts		43,272
Nongovernment grants and contracts		64,539
Sales and services of educational departments		36,731
Auxiliary enterprises, net of scholarship allowances of $6,449		171,372
Other operating revenues		10,674
Total operating revenues	**$**	**1,058,622**

Operating Expenses

Educational and general		
Instruction	$	369,734
Research		405,271
Public service		74,209
Academic support		123,854
Student services		32,396
Institutional support		90,525
Operation and maintenance of plant		87,119
Scholarships and fellowships		55,510
Auxiliary enterprises		158,914
Depreciation (Note 5)		107,770
Total operating expenses	**$**	**1,505,302**
Operating Loss	**$**	**(446,680)**

Nonoperating Revenues (Expenses)

State appropriations	$	330,297
Share of State sales tax revenues		19,954
Federal grants and appropriations		80,955
Federal fiscal stabilization funds		755
State and other government grants		3,506
Nongovernment grants		2,996
Gifts		87,355
Investment income		28,686
Interest expense on debt		(50,447)
Other nonoperating revenues, net		13,849
Net nonoperating revenues	**$**	**517,906**
Income before Capital and Endowment Additions	**$**	**71,226**

Capital grants, gifts and conveyances	$	7,279
Capital appropriations - Research Infrastructure Capital Financing		14,253
Additions to permanent endowments		2,726
Total capital and endowment additions	**$**	**24,258**
Increase in Net Assets	**$**	**95,484**

Net Assets

Net Assets - Beginning of year		973,603
Net Assets - End of year	**$**	**1,069,087**

See Notes to Financial Statements

Statement of Activities – Component Units

Year Ended June 30, 2011 *(in thousands of dollars)*

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues				
Sales and services	$ 916			$ 916
Contributions	405	$ 36,051	$ 16,856	53,312
Rental revenues	11,997			11,997
Investment income	3,818	7,652	51,010	62,480
Net assets released from restriction	56,975	(40,341)	(16,634)	
Other income	9,373	3,983	146	13,502
Total revenues	**$ 83,484**	**$ 7,345**	**$ 51,378**	**$ 142,207**
Expenses				
Program services:				
Leasing related expenses	$ 8,937			$ 8,937
Payments to the University	42,678			42,678
Payments on behalf of the University	16,350			16,350
Supporting services:				
Management and general	6,132			6,132
Fund raising	6,164			6,164
Other expenses		$ 5,500		5,500
Total expenses	**$ 80,261**	**$ 5,500**		**$ 85,761**
Increase/(decrease) in Net Assets	**$ 3,223**	**$ 1,845**	**$ 51,378**	**$ 56,446**
Net Assets - Beginning of year	**28,178**	**138,133**	**315,529**	**481,840**
Transfers	184	(764)	580	
Reclassification of funds with deficiencies	263	(263)		
Net Assets - End of year	**$ 31,848**	**$ 138,951**	**$ 367,487**	**$ 538,286**

See Notes to Financial Statements

© Scott Kirkessner

Statement of Cash Flows

Year Ended June 30, 2011 *(in thousands of dollars)*

Cash Flows from Operating Activities

Tuition and fees	$ 379,889
Grants and contracts	475,875
Payments for salaries, wages and benefits	(948,026)
Payments to suppliers	(386,123)
Payments for scholarships and fellowships	(50,892)
Loans issued to students	(5,331)
Collections on loans to students	3,409
Auxiliary enterprise receipts	168,223
Sales and services of educational departments	32,919
Other receipts	10,695
Net cash used for operating activities	**$ (319,362)**

Cash Flows from Noncapital Financing Activities

State appropriations	$ 330,297
Share of State sales tax receipts	19,935
Gifts and grants for other than capital purposes	172,231
Federal fiscal stabilization funds	755
Other nonoperating receipts	17,170
Federal Family Education Loans received	193,939
Federal Family Education Loans disbursed	(195,547)
Funds held for others received	99,877
Funds held for others disbursed	(115,908)
Net cash provided by noncapital financing activities	**$ 522,749**

Cash Flows from Capital Financing Activities

Proceeds from issuance of capital debt, including premiums	$ 43,883
Capital grants and gifts received	21,295
Proceeds from sale of capital assets	188
Purchase of capital assets	(196,018)
Principal paid on capital debt and leases	(42,333)
Interest paid on capital debt and leases	(46,908)
Net cash used for capital financing activities	**$ (219,893)**

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	$ 450,479
Interest and dividends on investments	5,240
Purchase of investments	(583,851)
Net cash used for investing activities	**$ (128,132)**
Net decrease in Cash and Cash Equivalents	**$ (144,638)**

Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year	198,461
Cash and Cash Equivalents - End of year	**$ 53,823**

See Notes to Financial Statements

Statement of Cash Flows

Year Ended June 30, 2011 *(in thousands of dollars)*

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	$ (446,680)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	107,770
Changes in assets and liabilities:	
Receivables, net	(13,520)
Inventories	434
Deferred expenses	(1,225)
Accounts payable	7,668
Accrued payroll and benefits and compensated absences	5,007
Deferred revenue and deposits	21,184
Net Cash Used for Operating Activities	**$ (319,362)**

Significant Noncash Transactions

Gifts and conveyances of capital assets	$ 644
Change in fair value of investments	4,028
Amortization of bond discount and issuance costs	(2,352)
Amortization of bond premium	1,695
Amortization of deferred costs of refundings	1,470
Net loss on disposal of capital assets with an original cost of $16,179, accumulated depreciation of $14,298 and cash proceeds of $187	(1,694)
Amortization of IBM deferred rent	4,900

See Notes to Financial Statements

© FJ Gaylor

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, 2011, the University implemented the provisions of GASB Statement No. 59, *Financial Instruments Omnibus*. GASB Statement No. 59 updates and improves existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools. The implementation of GASB Statement No. 59 had no effect on fiscal year 2011 financial statement amounts and therefore no additional note disclosures were required.

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 financing, or investing activities.

© Steven Meckler

© FJ Gaylor

The financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the same time liabilities are incurred, regardless of when the related cash flows take place. State appropriations are recognized as revenue in the year in which the appropriation is first made available for use. Grants and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. 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 managed by the University, 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 2011, the expendable rate was established at 4% of the three-year average market value ending December 31, 2009. 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 reported at actual cost or, if donated, at fair market value at date received.
- The University maintains special collections and historical treasures for educational purposes and public exhibition. These special collections include Kress, Pfiefer, and Gallagher artwork, Ansel Adams, Richard Avedon, and Edward Westin photography collections, American Indians of the Southwest archeological collection, pottery whole vessel collection, and several medical and law book collections. They are not subject to disposal for financial gain or encumbrance. Accordingly, such collections are not capitalized for financial statement purposes but are inventoried for property control purposes.

- Interest incurred during the construction phase of projects is capitalized, net of interest earned on the invested proceeds over the same period.

- Capital assets, other than land, construction in progress and intangible assets with indefinite useful lives, 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:		
Various equipment, machinery, vehicles and other	5,000 - 100,000	3 - 25
Intangible assets, computer software ≥ $10 million	10,000,000	10
Intangible assets, computer software < $10 million	1,000,000	5
Library materials	1	10
Land	1	n/a
Construction in progress	100,000	n/a

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

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

NOTE 2. COMPONENT UNITS

The financial statements of the University include the operations of the University of Arizona Foundation, Inc., 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.

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: University of Arizona, Financial Services, P.O. Box 3310, Tucson, Arizona 85722-3310.

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

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

Campus Research Corporation (CRC) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to assist the University in the acquisition, improvement and operation of the UA Science and Technology Park (Park) and related properties. CRC currently leases from the University the remaining 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 2011, a distribution of $200,000 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: University of Arizona Science and Technology Park, 9030 South Rita Road, Suite 302, Tucson, Arizona 85747.

Courtesy of the Campus Arboretum

Heritage Tree – *Carnegiea gigantea* (crested saguaro); northeast of Old Main for decades.

NOTE 3. DEPOSITS AND INVESTMENTS

A. General

At year end, the University's deposits and investments had a fair value of $692,476,000. The required disclosures are included in sections B and C of this footnote.

Included in the University's deposits and investments are capital project funds totaling $187,380,000 which are held in trust by a commercial bank. Of this amount, $178,059,000 is available for future construction costs, and $9,321,000 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 totaling $165,192,000 managed by The University of Arizona Foundation (Foundation) make up a portion of the deposits and investments. These funds are held in a pooled endowment fund managed under a service contract with the Foundation and invested in the Foundation's Endowment Pool (Pool). The University's endowment assets are maintained separately on the financial system of the Foundation, and receive a proportional share of the Pool activity. As such, the Foundation owns the assets of the Pool; the University has an interest in the Pool, which is considered an external investment pool to the University. The Pool invests in a variety of asset classes, including common stocks, fixed income, foreign investments, private equity and hedge funds. The Pool is not registered with the Securities and Exchange Commission as an investment company. The Foundation's Investment Committee is responsible for oversight of the Pool in accordance with Foundation policies. The fair value of the University's position in the Pool is based on the University's proportionate share of the Pool, which is marked-to-market monthly. Included in these investments are balances invested on behalf of the Arizona Student Financial Aid Trust (ASFAT). ASFAT was established by the Arizona Board of Regents and is funded by the Arizona State Legislature and student fees. The University's ASFAT funds are recorded as endowment investments at $22,632,000. The University of Arizona no longer manages nor invests ASFAT funds for Northern Arizona University, effective as of the end of December 2010.

Also included within the endowment funds are certain endowments held by external trustees. At June 30, 2011, University endowments totaling $16,703,000 were 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.

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 certificates of deposit, collateralized 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 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.

The University's deposit and investment policies follow the Board's policies.

C. Deposit and Investment Risk

Custodial Credit Risk:

University policy for its operating funds requires all repurchase agreements to be collateralized with government debt securities or cash balances held in the controller's demand deposit account. Beyond this requirement, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2011, $16,703,000 of the University's total deposits and investments were exposed to custodial credit risk since a portion of the University's endowment funds were held by trustees. These deposits and securities were 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 restricts investment of the operating funds to certificates of deposit and collateralized 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. 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 University does not have a formal policy that specifically addresses credit risk over endowment funds. As indicated in Section A of this note, $165,192,000 of the University endowment funds are held in the Foundation's Endowment Pool, which is not rated. The Foundation's Investment Committee manages the credit risk of the Pool's investments. Other University endowment funds held by external trustees are invested in accordance with donor restrictions and those investments' credit quality ratings are included in the table below.

The Moody's credit quality ratings for the University's investments in debt securities at June 30, 2011 are disclosed in the following table:

			Moody's Rating			
Investment Type	**Fair Value**	**Not Rated**	**AAA**	**AA**	**A**	**BAA**
Asset Backed Securities	$ 189,000	113,000	66,000		10,000	
Bond Mutual Funds and Exchange Traded Funds	1,522,000	1,522,000				
Negotiable Certificates of Deposit*	17,938,000	11,637,000		6,301,000		
Commercial Paper	2,949,000			2,799,000	150,000	
Corporate Bonds	72,245,000		7,554,000	21,981,000	42,505,000	205,000
Federal Agency Securities	226,879,000		214,889,000		11,990,000	
Money Market Mutual Funds	107,833,000		107,833,000			
Municipal Bonds	11,000			11,000		
State Treasurer's Pool	1,175,000	1,175,000				
Totals	**$ 430,741,000**	**14,447,000**	**330,342,000**	**31,092,000**	**54,655,000**	**205,000**

*Although some of the negotiable certificates of deposit are unrated by Moody's Investors Service, $11,637,000 is covered by federal deposit insurance and would be returned to the University in the situation of default by the issuer.

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 equals or exceeds 5% of the overall portfolio. At June 30, 2011, the University had investments in Federal Home Loan Bank, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation agency securities with a fair value of $79,728,000, $62,949,000, and $62,887,000 or 11.5%, 9.1%, and 9.1% of total investments, respectively.

Interest Rate Risk:
University policy for its operating funds limits the maximum maturity of any fixed-rate or variable-rate security to five years from the settlement date of purchase. The endowment fund portfolio has no such limitation. The following chart presents the interest rate risk for the University's debt investments at June 30, 2011, utilizing the segmented time distribution method:

				Maturity Date	
Investment Type	**Fair Value**	**< 1 Year**	**1-5 Years**	**6-10 Years**	**> 10 Years**
Asset Backed Securities	$ 189,000		130,000	10,000	49,000
Bond Mutual Funds and Exchange Traded Funds	1,522,000		583,000	939,000	
Negotiable Certificates of Deposit	17,938,000	4,078,000	13,860,000		
Commercial Paper	2,949,000	2,949,000			
Corporate Bonds	72,245,000	21,309,000	49,812,000	1,124,000	
Federal Agency Securities	226,879,000	69,061,000	157,560,000	22,000	236,000
Money Market Mutual Funds	107,833,000	107,833,000			
Municipal Bonds	11,000		11,000		
State Treasurer's Pool	1,175,000		1,175,000		
U.S. Treasury	14,767,000	4,316,000	10,373,000	78,000	
Totals	**$ 445,508,000**	**209,546,000**	**233,504,000**	**2,173,000**	**285,000**

At June 30, 2011, the University held $226,879,000 or 33% of investments in Federal agency securities, including Federal Farm Credit Bank, Federal Home Loan Bank, 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, 2011 are shown in the table below. These investments are part of the University's endowment portfolio and are invested by external trustees. University policy does not include any specific requirements for foreign currency risk. University endowment funds held by external trustees are invested in accordance with donor restrictions.

Investment Type	**Currency**	**Fair Value**
Equities	Various	$ 2,367,000
Bonds	Various	924,000
Miscellaneous	Various	205,000
Total		**$ 3,496,000**

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 located in Arizona. The current members of LBT are the University, INAF Astrophysical Observatory, Research Corporation for Science Advancement, The Ohio State University, and LBT Beteiligungsgesellschaft (LBTB).

The University has committed resources equivalent to 25% of LBT's construction costs and annual operating costs. The University has made total 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, $786,000 in calendar year 2010, as a reduction in its investment. At June 30, 2011, the investment totaled $15,221,000. According to the audited financial statements of LBT for the year ended December 31, 2009, assets, liabilities, revenues and expenses totaled $129 million, $4 million, $14 million, and $11 million, respectively. The audited financial statements of LBT for the year ended December 31, 2010 were not yet available. 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, 2011, was as follows:

	Beginning Balance July 1, 2010	Additions	Retirements	Transfers/ Reclasses	Ending Balance June 30, 2011
Land	$ 75,866,000	$ 576,000			$ 76,442,000
Construction in progress	163,269,000	149,558,000		$ (168,642,000)	144,185,000
Total non-depreciable capital assets	$ 239,135,000	$ 150,134,000	$ 0	$ (168,642,000)	$ 220,627,000
Buildings and improvements	$ 1,625,869,000	$ 593,000	$ (1,282,000)	$ 151,710,000	$ 1,776,890,000
Infrastructure	182,260,000			6,116,000	188,376,000
Equipment	435,327,000	37,915,000	(12,681,000)	10,816,000	471,377,000
Library materials	241,449,000	16,336,000	(2,217,000)		255,568,000
Total depreciable capital assets	$ 2,484,905,000	$ 54,844,000	$ (16,180,000)	$ 168,642,000	$ 2,692,211,000
Less: accumulated depreciation					
Buildings and improvements	$ 739,579,000	$ 55,107,000	$ (576,000)		$ 794,110,000
Infrastructure	73,553,000	7,370,000			80,923,000
Equipment	318,122,000	31,896,000	(11,506,000)		338,512,000
Library materials	190,527,000	13,397,000	(2,217,000)		201,707,000
Total accumulated depreciation	$ 1,321,781,000	$ 107,770,000	$ (14,299,000)	$ 0	$ 1,415,252,000
Depreciable capital assets, net	$ 1,163,124,000	$ (52,926,000)	$ (1,881,000)	$ 168,642,000	$ 1,276,959,000
Capital assets, net	$ 1,402,259,000	$ 97,208,000	$ (1,881,000)	$ 0	$ 1,497,586,000

In addition to expenditures through June 30, 2011, it is estimated that $587,983,000 will be required to complete projects under construction or planned for construction. Of that amount, $96,748,000 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 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 three 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, 2011 consist of the following:

Current Deferred Revenue and Deposits		
Unexpended cash advances received for sponsored programs	$	60,304,000
Auxiliary sales and services		5,794,000
IBM lease related to the acquisition of the Park		4,900,000
Tuition and fees		8,936,000
Other deferred revenues		1,198,000
Deposits		1,651,000
Total current deferred revenue and deposits	$	82,783,000
Noncurrent Deferred Revenue and Deposits		
IBM lease related to the acquisition of the Park	$	10,270,000

Courtesy of the Campus Arboretum

Great Tree of Arizona – *Chorisia insignis* (floss silk tree); south of the Engineering building, planted around 1950.

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 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, 2011, was as follows:

Beginning balance	$ 38,253,000
Additions	46,339,000
Reductions	(46,034,000)
Ending balance	$ 38,558,000
Current portion	$ 6,841,000

© Steven Meckler

NOTE 8. LONG-TERM DEBT AND LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2011 was as follows:

	Beginning Balance July 1, 2010	Additions	Reductions	Ending Balance June 30, 2011	Due Within One Year
Bonds payable	$ 622,265,000	$ 39,595,000	$ (24,720,000)	$ 637,140,000	$ 17,375,000
Certificates of participation	475,439,000	217,000	(15,705,000)	459,951,000	21,852,000
Capitalized lease obligations	39,877,000	875,000	(2,147,000)	38,605,000	2,105,000
Subtotal long-term debt	$ 1,137,581,000	$ 40,687,000	$ (42,572,000)	$ 1,135,696,000	$ 41,332,000
Premium on sale of debt	23,593,000	3,786,000	(1,695,000)	25,684,000	1,429,000
Discount on sale of debt	(2,728,000)	0	144,000	(2,584,000)	(144,000)
Deferred costs of refundings	(13,373,000)	0	1,470,000	(11,903,000)	(1,173,000)
Total long-term debt	$ 1,145,073,000	$ 44,473,000	$ (42,653,000)	$ 1,146,893,000	$ 41,444,000

Courtesy of the Campus Arboretum

Great Tree of Arizona – *Fouquieria columnaris* (boojum); Joseph Wood Krutch Garden, on campus since the 1930s.

Bonds – The University's bonded debt consists of various issues of system revenue bonds and Stimulus Plan for Economic and Educational Development (SPEED) 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 and for refunding obligations from previously issued bonds.

For all outstanding SPEED revenue bonds, up to 80% of the debt service payments are payable from the University's SPEED revenue bond account monies, which are derived from certain revenues of the Arizona State Lottery. To the extent SPEED revenue bond account monies are not sufficient to make debt service payments, the SPEED revenue bonds are secured by a pledge of certain gross revenues, such as student tuition and fees, but that pledge is subordinate to the pledge of those gross revenues for the university's system revenue bonds.

On June 1, 2011, the University sold SPEED Revenue Bonds Series 2011 for $39,595,000 dated June 15, 2011. The 2011 Bonds are serial bonds with interest rates of 4.25% and 5.00% and maturity dates ranging from 2016 to 2029. The serial bonds with maturity on or after August 1, 2022, are subject to optional redemption without premium. The 2011 Bonds sold at a premium of $3,786,000. The University realized net proceeds of $43,000,000 after payment of $381,000 for issuance costs and underwriter discounts. The net proceeds will be used to finance various building renewal projects across the campus of the University.

The University's outstanding SPEED Revenue Bonds Series 2010 were issued as designated Build America Bonds under the provisions of the American Recovery and Reinvestment Act. As such, the University is eligible to receive direct payments from the U.S. Treasury Department equal to 35% of the interest payments on such bonds on each interest payment date. In order to receive such payments, the University must file certain required information with the federal government between 90 and 45 days prior to the interest payment date. The amount paid to the University by the federal government may be reduced or eliminated due to such issues as failure by the University to submit the required information, amounts owed by the University to the federal government, or changes in the law that would reduce or eliminate such payments. The University is currently not aware of any such issues that may adversely affect the amount of payments to be received from the federal government related to such designated Build America Bonds.

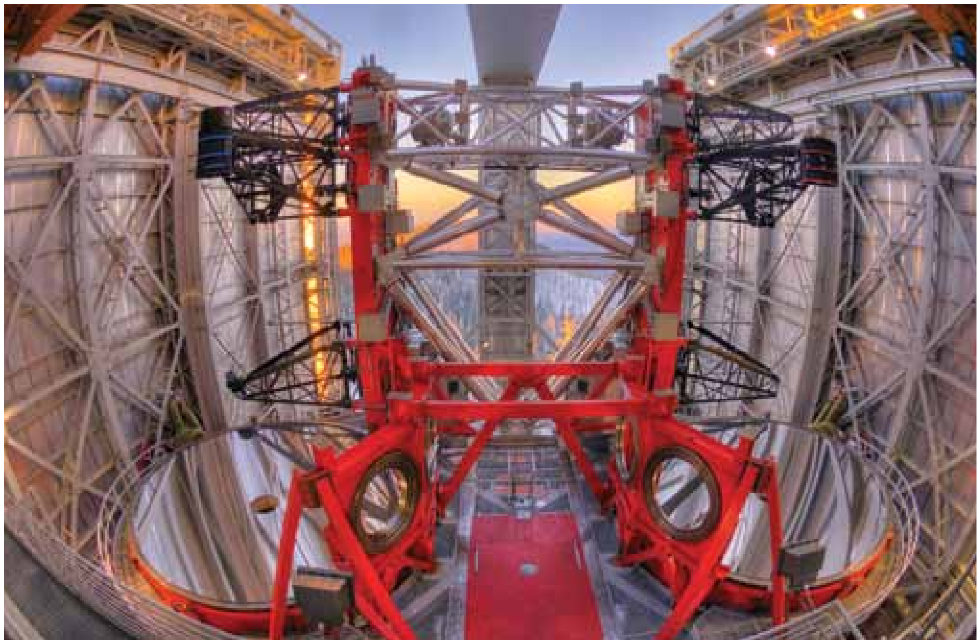
The following schedule details outstanding bonds payable at June 30, 2011:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1992A – System Revenue Refunding Bonds	$ 55,490,000	2016	6.20%	$ 28,660,000
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%	14,540,000
2004B – System Revenue Bonds	50,265,000	2034	4.00-5.00%	44,645,000
2005A – System Revenue Bonds	35,570,000	2031	3.375-5.00%	31,710,000
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%	28,070,000
2008A – System Revenue Bonds	43,105,000	2040	4.00-5.00%	41,380,000
2008B – System Revenue Refunding Bonds	18,090,000	2018	3.50-4.50%	10,245,000
2009A – System Revenue Bonds	202,370,000	2039	3.00-5.00%	202,370,000
Subtotal – System Revenue Bonds	$ 502,130,000			$ 450,070,000
2010 – SPEED Revenue Bonds	147,475,000	2045	4.31-6.643%	147,475,000
2011 – SPEED Revenue Bonds	39,595,000	2030	4.25-5.00%	39,595,000
Subtotal – SPEED Revenue Bonds	$ 187,070,000			$ 187,070,000
Total	$ 689,200,000			$ 637,140,000

The following schedule details debt service requirements to maturity for System and SPEED Revenue Bonds payable at June 30, 2011:

Year	Principal	Interest
2012	$ 17,375,000	$ 32,209,000
2013	21,470,000	32,094,000
2014	22,500,000	31,094,000
2015	21,080,000	29,995,000
2016	21,135,000	28,941,000
2017-21	125,710,000	126,366,000
2022-26	115,815,000	96,245,000
2027-31	120,275,000	65,792,000
2032-36	80,770,000	38,880,000
2037-41	64,355,000	17,411,000
2042-45	26,655,000	3,635,000
Total	$ 637,140,000	$ 502,662,000

© FJ Gaylor



Large Binocular Telescope

The University has pledged portions of its gross revenues towards the payment of debt related to all system revenue bonds, system revenue refunding bonds, and SPEED revenue bonds outstanding at June 30, 2011. 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, 2011, pledged revenues totaled $875.8 million of which 6.1% ($53.3 million) was required to cover current year debt service. Future annual principal and interest payments on the bonds are expected to require approximately 4 percent of pledged revenues. Future pledged revenues required to pay all remaining debt service for the bonds through final maturity of August 1, 2044 is $1.14 billion.

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, 2011, the outstanding principal balance for the Certificates of Participation Series 2001B was $1,015,000, which will be paid by investments held in an irrevocable trust with a fair market value of $1,064,000. Accordingly, the trust account assets and liability for these defeased certificates are not included in the University's financial statements.

In fiscal year 2007, the University refunded, in advance of maturity, a portion of outstanding Certificates of Participation Series 2001B and 2002A. At June 30, 2011, the total outstanding principal balance for the Certificates of Participation Series 2001B and 2002A was $47,845,000, which will be paid by investments held in an irrevocable trust with a fair value of $48,177,000. 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, 2011:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1999A Fixed Student Union Certificates	$ 21,607,000	2020	5.00-5.125%	$ 4,581,000
2001A Park Std. Union, Learning Svcs., 6th Street Garage, TEP Bldg.	31,695,000	2012	4.450%	1,415,000
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	5.00-5.50%	8,025,000
2002B Meinel Bldg., Refund COPS 1994B	29,845,000	2023	4.75-5.125%	25,145,000
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	4.448-5.25%	133,675,000
2004A Chemistry Bldg. Expansion, Res. Life Phase I, Highland Pkg. Garage, Refund COPS 1994A	42,020,000	2029	4.50-5.25%	27,285,000
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	3.750-4.136%	3,030,000
2005F Refund COPS 2000A & 2001A	14,915,000	2025	4.00-4.50%	11,725,000
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	3.875-4.50%	10,415,000
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%	16,315,000
2007A Refund COPS 2001A	12,035,000	2025	3.50-4.50%	11,925,000
2007B Refund COPS 2001B & 2002A	50,150,000	2022	4.00-4.50%	49,790,000
2007D Refund COPS 2004B	42,895,000	2031	4.00%	42,765,000
Total	$ 643,377,000			$ 459,951,000

Courtesy of Capital Planning & Projects, The University of Arizona Medical Center – University Campus

The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2011:

Year	Principal	Interest
2012	$ 21,852,000	$ 21,913,000
2013	23,061,000	21,005,000
2014	24,223,000	19,903,000
2015	23,574,000	19,317,000
2016	29,240,000	15,437,000
2017-21	162,971,000	64,909,000
2022-26	108,545,000	28,839,000
2027-31	66,485,000	9,493,000
Total	$ 459,951,000	$ 200,816,000

Capital Leases – The University has entered into various long-term leases to acquire equipment and enhance fixtures and infrastructure. These leases are classified as capital leases since they provide a bargain purchase option, a transfer of ownership by the end of the lease term, or comply with other accounting criteria. The largest lease entered into this fiscal year was with US Bancorp Equipment Finance Inc. for the Large Binocular Telescope Networking Switches in the amount of $353,000 with a 3.98% interest rate and a final payment date of July 15, 2015.

The following schedule details debt service requirements to maturity for capital leases payable at June 30, 2011:

Year	Capital Lease Payments
2012	$ 4,229,000
2013	4,214,000
2014	3,696,000
2015	3,368,000
2016	3,062,000
2017-21	13,297,000
2022-26	13,263,000
2027-31	13,439,000
2032-36	7,925,000
Total minimum lease payments	$ 66,493,000
Less: interest	(27,888,000)
Present value of net minimum lease payments	$ 38,605,000

Capital Asset Financing – Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2011:

Land	$ 7,500,000
Buildings and improvements	491,312,000
Infrastructure	34,273,000
Equipment	22,682,000
Total cost of assets	$ 555,767,000
Less: accumulated depreciation	(171,236,000)
Carrying value of assets	$ 384,531,000

Operating Leases – The University has entered into certain operating leases, generally with options for annual renewal, and other rental agreements for real property and equipment. For fiscal year 2011, rent expenses totaled $22,707,000.

The following schedule details future operating lease payments to maturity:

Year	Operating Lease Payments
2012	$ 4,429,000
2013	2,505,000
2014	2,040,000
2015	1,378,000
2016	262,000
Total	$ 10,614,000

NOTE 9. SELF-INSURANCE PROGRAM

The University is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in a self-insurance program administered by the State of Arizona Department of Administration, Risk Management 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, 2011, active ASRS members were required to contribute at the actuarially determined rate of 9.85 percent (9.60 percent retirement and .25 percent long term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 9.85 percent (9.01 percent for retirement, .59 percent for health insurance premium, and 0.25 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
2011	$	28,741,000	$	1,882,000	$	797,000
2010		26,043,000		2,061,000		1,249,000
2009		25,366,000		3,048,000		1,587,000

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, 2011, 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, 2011, 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 7.40 percent member contribution and a 7.84 percent University contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2011, were as follows:

Plan		University Contributions		Member Contributions	Total Contributions
TIAA/CREF	$	13,597,000	$	13,597,000	$ 27,194,000
VALIC		699,000		699,000	1,398,000
Fidelity		7,265,000		7,265,000	14,530,000
ASRS		18,000		17,000	35,000

© Jeff Smith

NOTE 11. OPERATING EXPENSES BY CLASSIFICATION

Operating expenses by functional and natural classification for the year ended June 30, 2011, consist of the following:

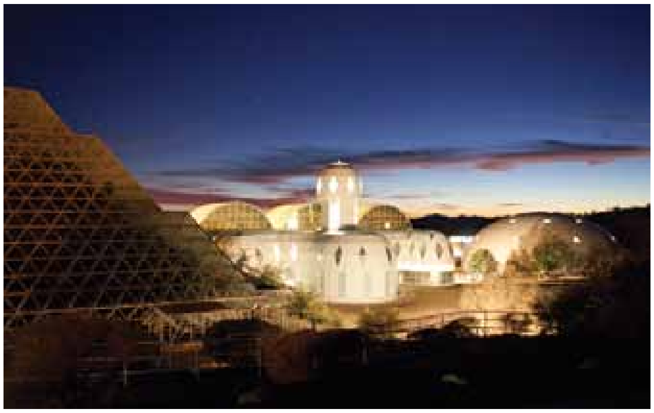
	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	$ 334,332,000	$ 35,402,000			$ 369,734,000
Research	251,762,000	153,509,000			405,271,000
Public Service	50,783,000	23,426,000			74,209,000
Academic Support	87,987,000	35,867,000			123,854,000
Student Services	26,126,000	6,270,000			32,396,000
Institutional Support	61,967,000	28,558,000			90,525,000
Operation and Maintenance of Plant	33,600,000	53,519,000			87,119,000
Scholarships and Fellowships	6,781,000		$ 48,729,000		55,510,000
Auxiliary Enterprises	99,695,000	57,055,000	2,164,000		158,914,000
Depreciation				$ 107,770,000	107,770,000
Total Operating Expenses	$ 953,033,000	$ 393,606,000	$ 50,893,000	$ 107,770,000	$ 1,505,302,000

Great Tree of Arizona – *Quercus virginiana* (southern live oak); west of Arizona State Museum South, planted in the 1950s.

NOTE 12. SUBSEQUENT EVENT

On July 28, 2011 the University of Arizona acquired a research property, the Biosphere 2, through a gift from CDO R&D Campus Holdings, LLC. The property was previously leased by the University, is valued at $31,620,000, and covers approximately 40 acres. Included facilities are the Biosphere 2 campus, the academic village, the research Lab, supporting energy center and lungs, and housing, conference, and parking structures.

Biosphere 2, under the auspices of the College of Science, will provide the University a permanent home for the facility's mission, which is serving as a center for research, outreach, teaching, and life-long learning about Earth, its living systems, and its place in the universe. Beyond the University research function, the Biosphere 2 will serve the general public. Individuals will have numerous opportunities to be involved with Biosphere 2, including public, group, and school tours, volunteering on advisory boards and steering committees, input on creation of programs such as "Science Saturday" and "Let's Talk Science", and design and creation of communication tools such as newsletters, blogs, webcams, podcasts, and videos.


Courtesy of Biosphere 2

Biosphere 2

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 U.S. Government or U.S. Treasury money market funds with original maturities of three months or less. Cash equivalents are stated at cost, which approximates fair value.

Investments

Investments 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 and mutual funds, 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 net asset value (NAV) which considers 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 based on NAV. Private capital and commodity limited partnership interests are recorded at fair value as determined by the fund manager based on NAV. Investments in alternative securities are highly susceptible to valuation changes. 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.

Annuities Payable and Other Trust Liabilities

Annuities payable and other trust liabilities of $17,620,000 at June 30, 2011 are stated at the actuarially computed present value of future payments to the annuitants, which approximates fair value. 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, 2011 total $34,914,000, of which $2,325,000 were unrestricted, $9,111,000 were temporarily restricted and $23,478,000 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 temporarily restricted net assets are met, the net assets are reclassified to unrestricted net assets. The total net assets reclassified are reported as net assets released from restriction in the accompanying statement of activities.

Law College Association of the University of Arizona

Change in Reporting Period

Effective June 1, 2011, the Association changed their fiscal year end from May 31 to June 30. The Association elected to report a thirteen-month financial statement for the period ending June 30, 2011.

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.

Solar Zone Development

The Corporation has an agreement with Tucson Electric Power (TEP) to develop a portion of the Park for a series of projects focused on the advancement of solar energy technologies. Under the terms of the agreement, CRC is required to incur certain infrastructure costs to develop the land to facilitate the construction of a Solar Zone, and TEP is required to reimburse CRC for a portion of these costs. As the land is developed, CRC will enter into various lease agreements with lessees who will construct solar projects. Each lessee will be charged a prorated portion of the development costs reimbursed by TEP, and those costs will be refunded to TEP. Costs related to the development of the Solar Zone are capitalized as incurred. Reimbursements from TEP are recorded as deferred revenues. The capitalized costs and deferred revenues are allocated to the various solar projects and recognized as expenses and revenues over the term of the related leases.

Protected Water Facility Rights

The Corporation developed a well, well pump, one million gallon storage tank, various booster pumps, piping, valving, electrical and other equipment and improvements required to operate a well booster station and water storage facility (water project) in accordance with their master water plan. The purpose of this development is to provide water throughout the Park. Once the water project is complete, title will pass to the Arizona Board of Regents and ultimately to the City of Tucson in exchange for protected water rights.

B. Investments

The University of Arizona Foundation

Investments comprised the following amounts at June 30, 2011:

	Carrying Value	Cost
Domestic/international equity securities and mutual funds	$ 199,499,000	$ 174,310,000
Absolute return limited partnerships and funds	183,337,000	167,791,000
U.S. fixed income obligations and mutual funds	88,229,000	84,367,000
REIT funds, real estate and timber partnerships	40,071,000	48,551,000
International fixed income mutual funds	27,090,000	30,141,000
Private capital and commodity limited partnerships	46,358,000	43,113,000
Totals	$ 584,584,000	$ 548,273,000

C. Endowment

The University of Arizona Foundation

The Foundation's endowment consists of approximately 1,350 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 are stated at fair value, are reported as due from the permanently restricted fund. The endowment pool is subject to the Arizona Management of Charitable Funds Act, which was signed into law on April 14, 2008.

Effective December 31, 2010, the Foundation's endowment also includes the endowment assets owned by the University of Arizona which it manages for the University under the terms of a development management services agreement. The fair value of the University's endowment was $159,774,000 on the date of transfer to the Foundation. The fair value of the University endowment assets are reported as both permanently restricted investment assets and as a liability for the fair value of endowment managed for the University.

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 three previous calendar year-ends) of the fair value of each endowment account as determined from time to time by the Foundation's Board, is made available to support the purposes of the individual accounts comprising each endowment account as specified by the donors. The Foundation charges a cost recovery fee, a percentage (1.25% in 2011) 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 $4,272,000 were recognized in 2011; an additional $974,000 in such fees were collected on behalf of and transferred to the University in 2011.

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 in the fiscal year in which they were received. Unconditional promises at June 30, 2011 totaled $7,422,000.

Law College Association of the University of Arizona

At June 30, 2011, the Association had pledges receivable totaling $22,070,000, net of present value discounts and allowances for doubtful pledges. Of the total pledges, 95% come from one individual donor for the thirteen months ended June 30, 2011.

E. Property and Equipment

Campus Research Corporation

Property and equipment consisted of the following as of June 30, 2011:

Building, infrastructure and improvements	$ 17,402,000
Solar zone development	2,751,000
Furniture, equipment and other property	1,432,000
Total	$ 21,585,000
Less accumulated depreciation	(5,211,000)
Property and equipment, net	$ 16,374,000

Solar zone development:
Through June 30, 2011 and 2010, approximately $2,751,000 and $479,000 of the costs have been incurred related to the solar zone project, of which $2,158,000 and $479,000 have not been placed in service. Reimbursed costs from TEP of $2,656,000 is included in deferred revenues at June 30, 2011.

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. In January 2011, the bonds were amended and restated to extend the maturity date to June 2022 and eliminate the lump-sum payment.	$ 6,466,000
Non interest-bearing note payable, Arizona Commerce and Economic Development Commission, payable in monthly principal installments of $2,000 through April 2016, unsecured.	108,000
Note payable, Wells Fargo Bank, payable in monthly installments of $26,000 including interest at 5% through June 2015.	1,153,000
Note payable, Wells Fargo Bank, nonrevolving line of credit for $1,500,000 converted to a term note in December 2009, payable in monthly installments of $20,000 including interest based on a formula prescribed in the agreement, through December 2016. At June 30, 2010, interest was 3.25%. During 2011, the note was amended to fix the interest rate at 5.84%.	588,000
Note payable, Wells Fargo Bank, nonrevolving line of credit for $420,000 converted to a term note in October 2009, payable in monthly installments of $9,000 including interest based on a formula prescribed in the agreement, through October 2013. At June 30, 2010, interest was 3.25%. During 2011, the note was amended to fix the interest rate at 4.71%.	252,000
Note payable, Wells Fargo Bank, nonrevolving line of credit for $2,000,000 converted to a term note in March 2011, payable in monthly installments of $38,000 including interest at 30-day LIBOR plus 4.25% through March 2016. At June 30, 2011, the 30-day LIBOR was 0.186%. Through March 2011, interest was payable monthly on the outstanding balance of the nonrevolving line at the prime rate with a floor of 5%.	1,900,000
Total long-term debt	$ 10,467,000

The bonds and notes payable to Wells Fargo Bank are collateralized by leasehold interests in real property and an assignment of rents and require the 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.

At June 30, 2010, the Corporation had an interest rate swap agreement with Wells Fargo Bank to reduce the variability in cash flows caused by changes in interest payments on the series A bonds. In January 2011, the Corporation entered into a series of agreements with the bank to modify the terms of their series A bonds. In conjunction with that transaction, the Corporation and bank terminated their existing swap and entered into a new swap agreement that matched the modified terms of the series A bonds. Under both swap agreements, the Corporation pays interest at the fixed rate and receives interest at the variable rate. Neither agreement was designated as a cash flow hedge.

The agreements were issued at market terms so that they had no value at inception. The notional amount under the agreements decrease as principal payments on the notes are made. The duration of the agreements are structured to coincide with the maturity of the notes. As required by GAAP, the carrying amount has been adjusted to fair value at June 30, 2011. The Corporation's derivative instruments held for risk management purposes at June 30, 2011 had a notional amount of $6,466,000 and a fair value of $935,000.

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 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.

H. Condensed Financial Statements of Major and Other Component Units

Component Units Statement of Financial Position June 30, 2011	**The University of Arizona Foundation**	**Other Component Units**	**Total**
Assets			
Cash, cash equivalents and investments	$ 649,521,000	$ 20,859,000	$ 670,380,000
Pledges receivable	7,422,000	22,125,000	29,547,000
Property and equipment, net	13,203,000	16,517,000	29,720,000
Other assets	3,726,000	10,545,000	14,271,000
Total Assets	**$ 673,872,000**	**$ 70,046,000**	**$ 743,918,000**
Liabilities and Net Assets			
Liabilities			
Fair value of endowment managed for the University	$ 165,192,000		$ 165,192,000
Annuities payable and other trust liabilities	17,620,000		17,620,000
Short-term and long-term debt		$ 10,487,000	10,487,000
Other liabilities	2,698,000	9,635,000	12,333,000
Total Liabilities	**$ 185,510,000**	**$ 20,122,000**	**$ 205,632,000**
Net Assets			
Unrestricted	$ 12,115,000	$ 19,733,000	$ 31,848,000
Temporarily restricted	113,037,000	25,914,000	138,951,000
Permanently restricted	363,210,000	4,277,000	367,487,000
Total Net Assets	**$ 488,362,000**	**$ 49,924,000**	**$ 538,286,000**
Total Liabilities and Net Assets	**$ 673,872,000**	**$ 70,046,000**	**$ 743,918,000**

I. Condensed Financial Statements of Major and Other Component Units, Continued

Component Units Statement of Activities Year Ended June 30, 2011	The University of Arizona Foundation	Other Component Units	Total
Revenues			
Contributions	$ 52,330,000	$ 982,000	$ 53,312,000
Rental revenues		11,997,000	11,997,000
Investment income	60,805,000	1,675,000	62,480,000
Other income	10,242,000	4,176,000	14,418,000
Total revenues	**$ 123,377,000**	**$ 18,830,000**	**$ 142,207,000**
Expenses			
Program services:			
Leasing related expenses		$ 8, 937,000	$ 8,937,000
Payments to the University	$ 42,678,000		42,678,000
Payments on behalf of the University	12,079,000	4,271,000	16,350,000
Supporting services:			
Management and general	4,608,000	1,524,000	6,132,000
Fund raising	6,019,000	145,000	6,164,000
Other expenses		5,500,000	5,500,000
Total expenses	**$ 65,384,000**	**$ 20,377,000**	**$ 85,761,000**
Increase (decrease) in Net Assets	**$ 57,993,000**	**$ (1,547,000)**	**$ 56,446,000**
Net Assets - Beginning of year	430,369,000	51,471,000	481,840,000
Net Assets - End of year	**$ 488,362,000**	**$ 49,924,000**	**$ 538,286,000**

Courtesy of Judy A. Davis

Robert N. Shelton and his successor, President Eugene G. Sander

Reflecting on Robert Shelton's Tenure

Since University of Arizona President Robert N. Shelton arrived in 2006, he has led the institution through a period of continued enrollment growth, degree expansion, great scientific feats and significant fundraising accomplishment – all during a time of tremendous fiscal challenges and unprecedented state budget reductions.

As President between 2006 and 2011, Shelton oversaw the UA through the most difficult economic downturn in nation's history, leading the institution through a major reorganization while simultaneously maintaining continued enrollment growth and expanded access at the main campus and in other parts of the state.

At the same time, milestones were achieved at a steady clip: a successful mission for the **Phoenix Mars Lander**, the opening of the **Diamond Children's Medical Center**, a campus visit by President Barack Obama, and the creation of a generous **scholarship program** for low-income Arizona high school graduates – the brainchild of Shelton and his wife, Adrian.

Credits

Content	Mark A. McGurk	*Comptroller*
	Floyd Roman	*Associate Comptroller, Financial Services Office*
	Duc Ma	*Director, Capital Finance, Financial Services Office*
	Amy Hoeft	*Assistant Comptroller, Financial Services Office*
Design	Darla L. Keneston	*AHSC BioCommunications*

Contributions to this publication by the Financial Services Office staff are greatly appreciated:
Meredith Abrams, Michael Aramian, Ramona Barajas, Lorena Batt, Trevor Behan, Alan Blumberg, Susan Brown, Andrea Bushong, Mario Calderon, Karen Christianson, Patrick Copeland, Denise Dellinger, Hanh Do, Elvira Garcia, Janet Gurton, Kelsey Haight, Denise Haverhals, Connie Huber, Norma Izabel-Cardenas, Pavel Jandura, John Jennings, Shauna Johnston, Kris Keithly, Steve Gregg Kelly, Ajana Lee, Brittany Lemmons, Eddie Minter, Michael Mitchell, Marlene Moldenhauer, Sarah Ortega, Fred Pearson, Melinda Pelusi, Kristy Peoble, Brad Peterson, Jennifer Pfennig, Brian Pierson, Chris Pings, Susan Reece, Susan Richmond, Gennady Sare, Sarah Trotta, Tenzing Tunden, Johanna Valdez, Guadalupe Valencia, Kandyce Williams, Tiansho Xie, Xuemei Yang and the Information Technology Services team.

THE UNIVERSITY OF ARIZONA®

Balf Walker and Chris Mooney