

**REPORT
HIGHLIGHTS**
FINANCIAL STATEMENT AUDIT

Subject

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

Our Conclusion

The information in the University's financial statements is fairly stated in all material respects, and the financial statements can be relied on. This information is also incorporated in the State of Arizona's *Comprehensive Annual Financial Report*.



2007

Year Ended June 30, 2007

The University's Condensed Financial Information

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

Statement of Net Assets

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

and liabilities, include three major categories. The first category, invested in capital assets, net of related debt, shows the University's equity in property, plant, and equipment. The next category, restricted net assets, shows the amount of net resources available for certain university expenditures. These net assets must be used for purposes determined by donors and external entities that have placed purpose restrictions on their use. The third category, unrestricted net assets, shows the net resources available to the University to fund other general operations. The summary below presents a condensed Statement of Net Assets as of June 30, 2007.

Assets	
Current assets	\$ 315
Noncurrent assets, other than capital	429
Capital assets, net	<u>1,272</u>
Total assets	<u>2,016</u>
Liabilities	
Current liabilities	255
Noncurrent liabilities	<u>933</u>
Total liabilities	<u>1,188</u>
Net Assets	
Invested in capital assets, net of related debt	410
Restricted	252
Unrestricted	<u>166</u>
Total net assets	<u>\$ 828</u>

Statement of Revenues, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses, and Changes in Net Assets presents the University's operating and nonoperating revenues and expenses, and the resulting change in net assets. Revenues and expenses are classified as operating if they relate to the University's primary activities, such as instruction, research, and public service. All other revenues and expenses, such as state appropriations and interest on indebtedness, are considered nonoperating. The change in net assets indicates whether the University's financial health has improved or deteriorated as a result of current-year operations. For the current year, the University's net assets showed an increase of \$62 million. The summary to the right presents the University's revenues and expenses for the year ended June 30, 2007.

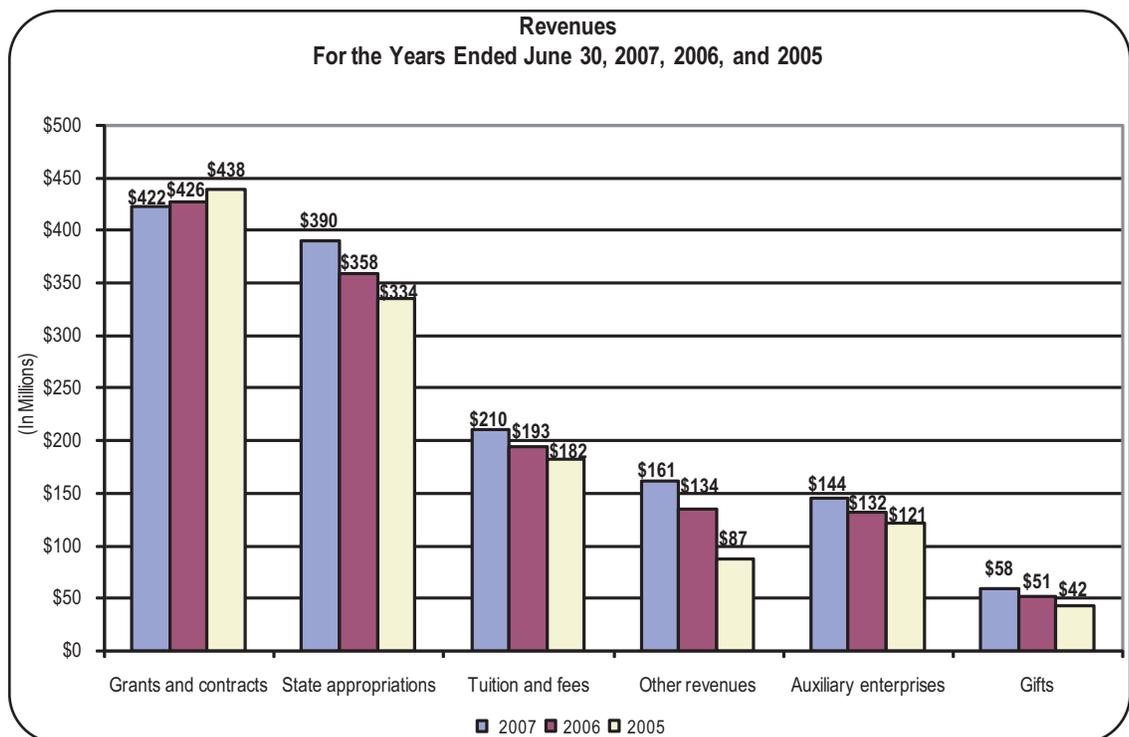
Condensed Statement of Revenues, Expenses and Changes in Net Assets Year Ended June 30, 2007 (In Millions)

Operating Revenues	
Tuition and fees	\$ 210
Grants and contracts	422
Auxiliary enterprises	144
Other	<u>36</u>
Total operating revenues	<u>812</u>
Nonoperating Revenues	
State appropriations	390
Other	<u>183</u>
Total nonoperating revenues	<u>573</u>
Total revenues	<u>\$1,385</u>
Operating Expenses	
Educational and general	\$1,060
Auxiliary enterprises	131
Depreciation	<u>94</u>
Total operating expenses	<u>1,285</u>
Nonoperating Expenses	
Interest expense on debt	<u>38</u>
Total expenses	<u>\$1,323</u>

Revenues

Between fiscal years 2005 and 2007, the University's total revenues have increased by \$181 million, or 15 percent. As shown in the chart below, the change primarily resulted from increases in state appropriations, tuition and fees, other, and auxiliary enterprises revenues. State appropriation revenues increased by \$56 million primarily for faculty retention costs and overall increases to salaries and benefits.

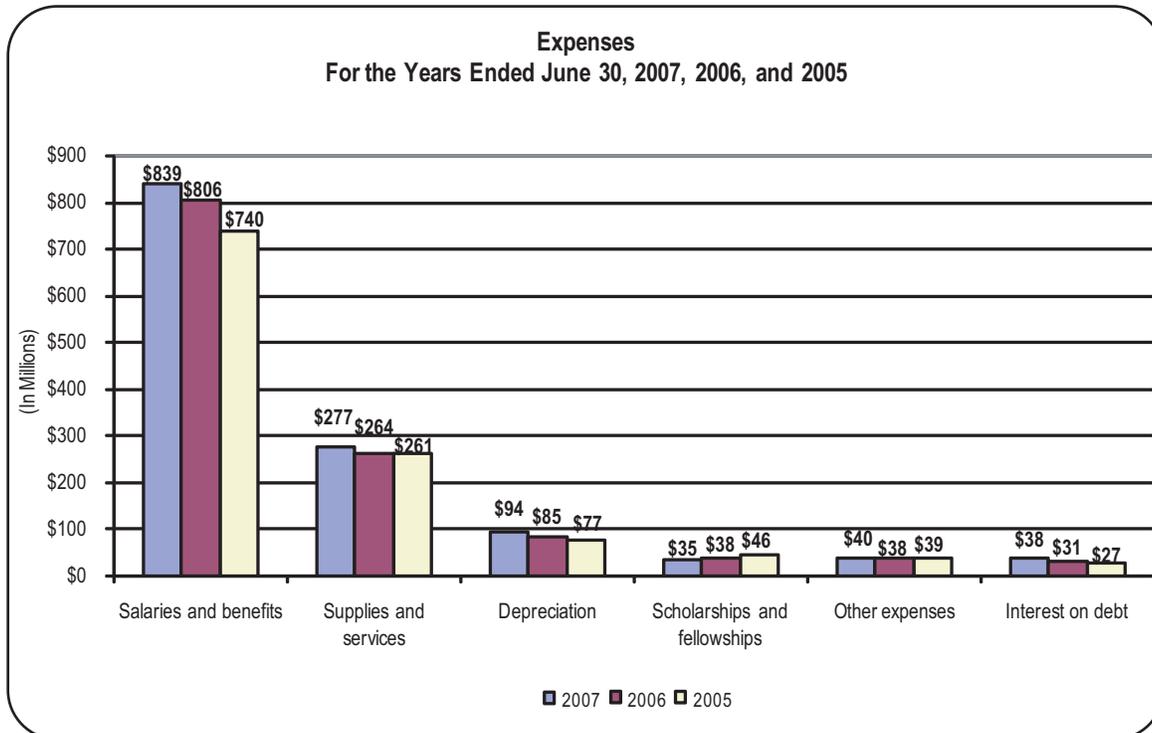
Tuition and fees revenues increased by \$28 million because of increases in the cost of tuition. Other revenues increased by \$74 million primarily from increases in state sales taxes and capital appropriations, higher investment earnings, and a \$16 million gain from the sale of land. Finally, Auxiliary enterprises increased by \$23 million mainly from increased revenues from the bookstore, athletics, and student housing.



Expenses

Between fiscal years 2005 and 2007, the University's total expenses have increased by \$133 million, or 11 percent. As shown in the chart below, the change primarily resulted from increases in salaries and benefits, supplies and services expenses, and depreciation. Salaries and benefits increased \$99

million, supplies and services increased \$16 million, and depreciation expense increased by \$17 million during the period. These changes primarily resulted from rising employee-benefit costs and operational increases largely related to increases in instruction and other services provided to students, as well as from recently completed buildings and building improvements that are now being depreciated.



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the year. This statement helps users assess the University's ability to generate net cash flows to meet its obligations as they come due and the need for external financing. The table to the right shows the net cash flows from each of the University's major activities for the year ended June 30, 2007

Cash Flows
For the Year Ended June 30, 2007
(In Millions)

Cash flows from:	
Operating activities	\$(386)
Noncapital financing activities	492
Capital and related financing activities	(137)
Investing activities	(9)
Net decrease in cash and cash equivalent investments	<u>\$ (40)</u>

TO OBTAIN
MORE INFORMATION

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



or by visiting
our Web site at:
www.azauditor.gov

Contact person for
this report:
Donna Miller

