



THE UNIVERSITY
OF ARIZONA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Included as an Enterprise Fund
of the State of Arizona
Tucson, Arizona

Year Ended
June 30, 2014



OLD MAIN'S LEGACY

The legacy of Old Main began in 1891 when it welcomed the University of Arizona's first class of 32 students. It stood as the sole building and entire campus, containing the library, classrooms, offices, and dorms. From the moment its doors first opened, Old Main became an indelible part of Arizona's history.

When the trenches for its foundation were dug, the red Arizona soil was used to make the bricks for Old Main's iconic facade. Since then, Old Main has been the inspiration for the distinctive red brick architecture across the entire UA campus. Even the original redwood beams at the base of Old Main have endured from the very beginning, symbolizing the strength of both the building and the university.



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Tucson, AZ

Prepared by the Financial Services Office



Giant Magellan Telescope (GMT) Mirror
Photo: UA Department of Astronomy

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◀◀◀ Introductory Section



Photo: UA External Relations



A Message from the President

I am honored to discuss the University's status in the Comprehensive Annual Financial Report, and I am proud to report on the progress we have made with Never Settle, the UA's strategic academic and business plan.

The four pillars of Never Settle emphasize 100% student engagement, innovating research, community and industry partnership, and synergy among all parts of the University. To provide maximum impact for each strategic priority, the UA has also launched *Arizona NOW*, a fundraising campaign unprecedented in its scope and organization. As part of the Never Settle business plan, *Arizona NOW* integrates with Never Settle's academic goals to maximize opportunities and to leverage strengths. It is the largest comprehensive campaign in the UA's history and will set the foundations of our success for many years to come. Thanks to the generosity of alumni and supporters around the world, *Arizona NOW* has reached 65% of its \$1.5 billion dollar goal.

Together, Never Settle and *Arizona NOW* enable the University to build upon its strengths. Just this year, *U.S. News & World Report* ranked the UA #58 in Top Public Schools. Other highlights include a #5 Entrepreneurship program, a #5 Management Information Systems program, and top ten programs in Audiology, Analytical Chemistry, Earth Sciences, Latin American History, Pharmacy, Social Pathology and Speech-Language Pathology. The list of accomplishments below represents only a sampling of what the UA has achieved in the past year. They paint a picture of a University ready and willing to take the next step in advancing its promise and impact as Arizona's super land-grant institution.

Student Engagement

The UA boasts one of the most employable student bodies in the world according to the Global Employability Survey. To build upon this accomplishment, the UA has established the Signature Graduation with Engagement designation for the UA transcript, which will reflect completion of engagement activities as a hallmark of UA degrees. The UA has also increased its freshman to sophomore retention rate 6% since 2010, reaching an all-time high of 81.5% this year. To increase access and to improve retention even further, the University has implemented the UA Bridge program for Arizona transfer students. Since the program launched two years ago, formal agreements have been reached with more than half of Arizona's community colleges, supporting student transfer offices at Mesa, Glendale, Paradise Valley and Pima community colleges.

Research at the Cutting Edge

The UA's research enterprise is among the most efficient and productive in the nation. In 2012, the UA ranked 7th among our Arizona Board of Regents peers in external dollars per grant-active faculty member and 9th in research expenditures per net assignable square foot. To enhance our competitiveness, Never Settle targets seven research areas chosen for their funding potential and the payoff for Arizona. Recent successes of this targeted support include a \$5.8 million test bed that will experiment with using algae as a fuel, a \$4.7 million partnership with the Tokyo Atacama Observatory, and a \$7.5 million grant from the Air Force Office of Scientific Research to develop better material failure prediction.

Arizona Health Sciences Center

As part of Never Settle's implementation, the Arizona Health Sciences Center identified four points of excellence in biomedical research that draw on the strength of the UA's two Academic Health Centers in Phoenix and Tucson: Population Health and Health Outcomes; Healthcare Disparities; Precision Health; and Neurosciences. Each area has a campus-wide advisory council to help guide its strategic advancement. These councils have created white papers that will guide the research focus of AHSC, and several of their initiatives have already been launched in the short time since their completion. The white papers can be found at <http://ahsc.arizona.edu>.

Tech Launch Arizona

In less than a year, Tech Launch Arizona has played a transformative role in translating academic research into commercial products, start-up companies, and employment opportunities for the Tucson community. In creating an “ecosystem of invention and commercialization,” TLA negotiated 72 licenses, filed 167 patent applications, secured 24 patents and helped create 11 start-ups. TLA also funded 19 internal and external Proof of Concept projects.

OSIRIS-REx

Dr. Dante Lauretta, UA assistant professor with the Lunar and Planetary Laboratory, serves as principal investigator for the OSIRIS-REx mission, a collaborative project that will launch a spacecraft to the asteroid Bennu in 2016. The spacecraft will use a robotic arm to collect samples that will tell us a great deal about the formation of our Solar System and how life may have begun on Earth. In April, OSIRIS-REx successfully completed the Mission Critical Design Review, and teams can now turn their attention to building the spacecraft and instruments.

UA’s distinguished past, dynamic present and promising future

The UA has been a world leader in developing better answers to our biggest and most pressing questions for nearly 130 years. As we honor this distinguished past and look forward to an even more distinguished future as a super land-grant institution, Never Settle clarifies a continually evolving vision for the UA that is both bold and achievable.

The University of Arizona will remain an institution that educates the next generation of researchers and leaders, innovates solutions to our most pressing social problems, and partners with industries and communities to serve the needs of Arizona. As a community partner, the UA directly serves Southern Arizona as Pima County’s largest employer. Units like Tech Launch Arizona translate our academic research into business start-ups, employment opportunities and commercial products, expanding our ability to enrich the lives and improve the prospects of the diverse people in our state and around the world. Other components of this report provide more information on innovative programs here at the UA, including the Master’s in Legal Studies through the James E. Rogers College of Law, the expansion of Graduate Medical Education at the UA’s two colleges of medicine in Tucson and Phoenix, and the remarkable success of the iPlant Collaborative at the UA’s BIO5 Institute.

Proud of our regional roots and global impact, the UA is poised to continue driving Arizona’s economic future as the state’s super land-grant university. Thank you for your ongoing support of the University of Arizona.

Most cordially,

Ann Weaver Hart
President



Letter of Transmittal



James A. Hyatt

October 10, 2014

To President Ann Weaver Hart, Members of the Arizona Board of Regents and the University of Arizona community:

We are respectfully submitting the Comprehensive Annual Financial Report (CAFR) of the University of Arizona for the fiscal year ended June 30, 2014. The

CAFR includes the Management's Discussion and Analysis (MD&A) and the basic financial statements, as well as other supplemental information that helps the reader gain an understanding of the University's financial position, activities and economic landscape of the surrounding area. Responsibility for the accuracy, completeness, and fairness of the data presented, including all disclosures, rests with the University's management. We believe to the best of our knowledge the information is accurate in all material respects and fairly presents the University's financial position, revenues, expenses and other changes in net position.

The University is responsible for implementing and maintaining an internal control structure to safeguard and prevent misuse of the University's assets. We believe our system of internal controls is sound and sufficient to disclose material deficiencies in controls to the auditors and the Arizona Board of Regents' (ABOR) Audit Committee. Because the cost of a control should not exceed the benefits to be derived, the objective is to provide reasonable, rather than absolute assurance, that the financial statements are free of any material misstatements and to provide management with reasonable, although not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition.

The University's CAFR is intended to fulfill the State of Arizona Transparency Law, Arizona Revised Statutes 41-725. Additionally, federal guidelines and certain bond covenants require that the University's accounting and financial records be subject to an annual independent audit. The University's annual audit is performed by the

State of Arizona Office of the Auditor General. The reports resulting from the audit are shared with University management, the ABOR Business and Finance Committee, ABOR Audit Committee and the Arizona Board of Regents. The audit of the University's federal financial assistance programs is performed by the Office of the Auditor General in conjunction with the statewide Single Audit. The independent auditors' report can be found on page 14 of the Financial Section wherein the auditors' opinion on the fair presentation of the financial statements is an unmodified opinion.

The CAFR is prepared in accordance with generally accepted accounting principles (GAAP) and in conformance with standards of financial reporting as established by the Governmental Accounting Standards Board (GASB) using the guidelines as recommended by the Government Finance Officers Association of the United States and Canada (GFOA). The MD&A is presented to supplement the financial statements by providing the necessary information for the reader to gain a broad understanding of the University's financial position and results of operation. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The MD&A can be found immediately following the independent auditors' report.

Institutional Profile

History – 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.

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

The University's outstanding research programs provide advances in applied and basic or pure 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.

Enrollment – Today, the University has gained an average of 550 students per year for the last five years. It serves 40,621 students through 18 colleges offering 356 degree programs and is ranked among the leading research universities in the country.

Enrollment Statistics – Academic Year 2013 - 2014

Undergraduate enrollment – Fall 2013	31,670
Graduate and Professional enrollment – Fall 2013	8,951
Degrees awarded – Bachelor's	6,494
Degrees awarded – Advanced	2,521
Tuition and fees for full-time student – Resident	\$10,391
Tuition and fees for full-time student – Non-resident	\$27,073

The University's 2,591 full time equivalent faculty and 1,244 full time equivalent graduate teaching and research assistants and associates educate a diverse student population. The student population is 52.0% female, 21.4% Hispanic, 5.9% Asian or Pacific Islander, 3.1% Black, and 1.1% Native American. It includes students from all fifty states and the District of Columbia and 108 foreign countries. International students totaled 8.3% of the Fall 2013 enrollment, with the largest numbers of foreign students hailing from the People's Republic of China, India, Korea, Mexico and Saudi Arabia.

Component Units – The basic 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, the Campus Research Corporation, and Eller Executive Education, all discretely presented component units. More information relating to the component units can be found in Notes 2 and 12 to the financial statements.

Budget – The University is responsible for planning, developing and controlling its budget and expenses in accordance with University, state and federal laws and policies. The Arizona Board of Regents approves the University's annual operating budget in accordance with ABOR policy 3-403. The budget includes the general purpose (state general funds and tuition and fees) budget and the local funds budget which consists of the designated, restricted and auxiliary funds. The State Legislature reviews the University's local funds budget and adopts and appropriates the general purpose budget through legislation.

After the budget has been approved, the University monitors the budget through UAccess Financials, the University financial enterprise system. While there are many controls built into UAccess Financials, colleges and departments also use financial reports to monitor budgetary compliance. Additionally, the Financial Services Office, a part of central administration, prepares quarterly financial status reports to management and the Arizona Board of Regents to update them on actual revenues and expenses. The report includes a comparison of actuals to budget and highlights the changes that occur throughout the fiscal year. It also projects revenues, expenses and net position for the end of the fiscal year.

Economic Condition

Local Economy – As reported by the Economic and Business Research Center of the University of Arizona Eller College of Management in June 2014, the State of Arizona's economy is still expanding at a slow pace. With federal fiscal drag soon expected to dissipate, the door is open for faster State growth in the near term, followed by demographically driven deceleration.

State personal income rose by 2.7% in calendar year (CY) 2013, down from 3.6% growth in CY 2012. Growth in Arizona's retail sales accelerated to 8.6% in 2013, up from 4.6% in 2012. Part of the acceleration in 2013 was driven by a reallocation of sales from the use tax category into retail sales. Nonetheless, faster retail sales growth in 2013 was somewhat surprising, given the deceleration in income growth. The Economic and Business Research Center speculates that this may be due in part to increased wealth from rising house prices and strong stock market performance during the year.

Arizona's job growth rose from 2.1% in CY 2013 to 2.4% in CY 2014, beating the U.S. average, but falling well short of our average growth rate during the 30 years before the Great Recession. This growth rises in the near term as we do not expect a repeat of the 2013 payroll tax increase, the sequestration, or the government shutdown. In addition, State growth benefits from the continued recovery of the housing sector. The forecast also calls for construction activity to accelerate, driven by faster population gains.

Long-term planning – The Strategic Plan, entitled Never Settle, outlines the University of Arizona strategies and priorities through 2020 that will guide the University's continued growth in student enrollment and success, our advancement in research excellence, our innovations in educational quality and access, our community impacts in workforce development and engagement, and our increasing productivity. The University's strategic priorities include:

- *Engaging* – To improve the prospects and enrich the lives of the people of Arizona and the world through education, research, creative expression, and community and business partnerships
- *Innovating* – Expand our research and creative inquiry to not only discover new knowledge and create new ideas, but also to innovate new ways of knowing and seeing that will ensure our continued leadership in interdisciplinary scholarship
- *Partnering* – Create novel, substantive, and entrepreneurial partnerships with businesses, community groups, and governments to support and enhance our impact on the local and global community
- *Synergy* – Build an infrastructure for change that cuts across all elements of our mission and all aspects of our plan, advancing our distinctiveness in interdisciplinarity, diversity, and sense of place while implementing business practices that are effective, efficient, and entrepreneurial

All of the strategies and priorities within the University's Strategic Plan make substantial contributions toward meeting the University's goals in the Arizona Board of Regents 2020 Vision strategic plan. These goals include increasing the number of citizens with the skills and understanding to contribute to economic development and improve the quality of life, advancing research that creates new knowledge, enhances education, and addresses social, cultural, and economic needs,

fostering civic engagement and improving economic competitiveness, and streamlining operations and business practices to maximize efficiencies.

The strategic plan was developed amidst a rapidly changing financial, social, political and cultural context which must be taken into account as the University continues to function and plan for a sustainable future. Parameters such as the following continue to guide the University's planning:

- Arizona's need for an educated citizenry
- The rich cultural, economic, and educational diversity of Arizona and its students
- Educational and social imperatives arising from economic and cultural globalization
- Challenges facing Arizona and the nation in areas such as health care, science, policy and natural resources

Resource assumptions are also central to effective strategic planning. The University's changing resource base challenges its decision-makers to develop innovative alternative funding sources. Although development of the programs and initiatives rest on a multifaceted financial base, progress depends in part on the ability of the State to provide adequate funding resources for student enrollment growth while maintaining program quality and breadth.

While there are parameters and resource assumptions that the University considers when developing an effective strategic plan, it is committed to advancing itself in every strategic area identified in the Never Settle Strategic Plan. In summary, the University is committed to increasing enrollment and retention rates of students, leveraging research funding for maximum effect, using technology transfer to support the creation of new business, expanding online educational offering, enhancing community college partnerships and streamlining operations and business practices.

Major Initiatives

The University offers an unusually extensive and varied group of research, graduate and professional programs. For decades, the University has been one of the top research universities in the nation (18th among public research universities in FY 2012) according to the National Science Foundation. With its abundance of physical, biological and health sciences programs and interdisciplinary

strengths, the University has tremendous potential for further research expansion.

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 contributing to the economic engine of the City of Tucson and State of Arizona.

The following are a few notable research and educational activities reported in fiscal year 2014 that showcase some of the University's major initiatives:

- The University of Arizona's James E. Rogers College of Law launched a new master's degree in legal studies for the first time in the fall of 2013. The Master's in Legal Studies degree is designed for people who work in, or intend to work in, a profession in which some legal knowledge would be helpful but a law degree is not required. The UA joins an increasing number of law schools across the country that have added legal studies degree programs in recent years. The degree program addresses an educational demand where few avenues have been available in the past.
- The University of Arizona's College of Medicine – Phoenix and College of Medicine – Tucson are working closely with clinical partners to develop a model to expand Graduate Medical Education (GME) programs in Arizona. The initiative addresses a national shortage of physicians. The University believes that academic medical centers are better positioned to offer GME programs due to the expertise of physician scientists, clinical excellence and a robust teaching operation found at academic medical centers. Ultimately, there are broadening opportunities for training, research and clinical partnerships. By emphasizing the need to expand GME programs, the University of Arizona is also addressing the affordability of high quality health care to Americans.
- The University of Arizona continues to be at the forefront of Space Telescope technology. In FY 2014, the University played a significant role in the development of the Near Infrared Camera, or NIRCam. The instrument will form the heart of NASA's James Webb Space Telescope, or JWST. It has been assembled and tested by aerospace company Lockheed Martin under a contract from the University of Arizona. The UA and Lockheed Martin are responsible for the NIRCam instrument design in

terms of the optical, mechanical, structural, thermal and electronic precision mechanisms as well as the control software. The JWST is NASA's next-generation space observatory and successor to the Hubble Space Telescope. The most powerful space telescope ever built, the JWST will observe the most distant objects in the universe, produce images of the very first galaxies ever formed, provide insight to how solar systems evolve and help explore planets around distant stars.

- The University of Arizona has emerged as a leader in the biosciences and computational science research and education. In FY 2014, the National Science Foundation has awarded \$50 million to a multi-institution collaborative headquartered at the University of Arizona's BIO5 Institute to create a national cyberinfrastructure for the biological sciences. The renewal grant for the iPlant Collaborative will allow scientists around the world to collaborate and use proven computational tools to analyze and manage massive biological data sets to efficiently address questions of scientific, national and global importance. The original five-year, \$50-million project, initiated in 2008, was the largest grant ever awarded by the NSF in the biological sciences, and three times larger than any NSF grant received by an institute in the state of Arizona at the time. Today, even in a precarious time for national funding agencies, the NSF renewed the iPlant award for another five years, increasing the total investment in the project to \$100 million.

Integrated Strategic Planning – The goal of the University's Integrated Strategic Planning is to couple the University's academic planning with a renewed framework for campus development that will provide the physical and virtual setting needed to achieve our academic aspirations and a financial plan that maps the means for the University to achieve its goals. It is a three-pronged process designed to maximize opportunities and promote the successful future the University envisions. The process will include modeling techniques through which the University can assess the impacts of integrating the academic, development and financial plans through multiple scenarios and variables on goals and achievements.

Responsibility Centered Management (RCM) – The goal of RCM is to build and smoothly implement an incentives-based transparent budget model for the University of Arizona. The objectives are:

- Encouragement and reward for revenue generation and cost effectiveness
- Alignment of authority and accountability at the local (unit) level
- Greater transparency regarding sources and uses of resources
- Greater flexibility — improved responsiveness to change
- Enhanced ability to plan with a better sense of future resource flows

RCM takes a University-wide view, utilizing a Steering Committee and Sub-Committees with wide representation across the University and mandates that include frequent and meaningful two-way communication.

Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the University for its CAFR for the fiscal year ended June 30, 2013. This was the first year that the University has been honored with this prestigious award. To receive a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for one year. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

In the most recent ranking (fiscal year 2012) the National Science Foundation (NSF) ranked the University of Arizona as America's No. 3 university for research expenditures in the physical sciences, which include astronomy, physics and chemistry. Overall, the UA's ranking among public research universities was 18th, and it was ranked as the nation's 29th 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.

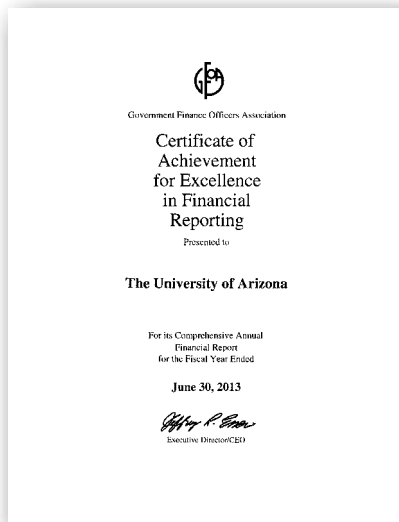
In July 2013, *U.S. News & World Report* ranked The University of Arizona Medical Center as one of the top 50 Best Hospitals in the country. It is ranked No. 30 in the specialty of ear, nose and throat and No. 34 in geriatrics. *U.S. News & World Report* also rated The University of Arizona Medical Center as "high performing" in 10 medical specialties.

In September 2013, U.S. News & World Report ranked the University of Arizona's McGuire Entrepreneurship Program No. 2 among public universities. Additionally, the University's Eller College of Management continues to receive high marks, increasing its ranking among MBA programs to No. 21 among public institution programs.

Eller's Management Information Systems program also continues to be among the top 5 undergraduate programs in the country. The University's overall national ranking, among both public and private universities, stayed steady at No. 121.

Preparation of this CAFR in a timely manner would not have been possible without the professionalism and dedication from staff in the University's Financial Services Office (FSO) including the Financial Management, Operations, Procurement and Contracting, Capital Finance, UAccess Financials Support, Bursar's Office, FSO Technology, Outreach, Investment Office, FSO administration, the business officers at the Budget Office, and the

Colleges and departments. In addition, we recognize the valuable contributions from the University Information Technology Services team.



James A. Hyatt

Interim Senior Vice President for Business Affairs and Chief Financial Officer

Arizona Board of Regents

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Governor of Arizona

Honorable John Huppenthal
Superintendent of Public Instruction

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Mesa

Jay Heiler, Vice Chair
Paradise Valley

Greg Patterson, Secretary
Scottsdale

Rick Myers, Treasurer
Tucson

Ram Krishna
Yuma

LuAnn Leonard
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Bill Ridenour
Paradise Valley

Ron Shoopman
Tucson

Valerie Hanna, Assistant Treasurer & Student Regent
Tucson

Mark Naufel, Student Regent
Tempe

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President

Andrew Comrie
Senior Vice President for Academic Affairs and Provost

James A. Hyatt
*Interim Senior Vice President for Business
Affairs and Chief Financial Officer*

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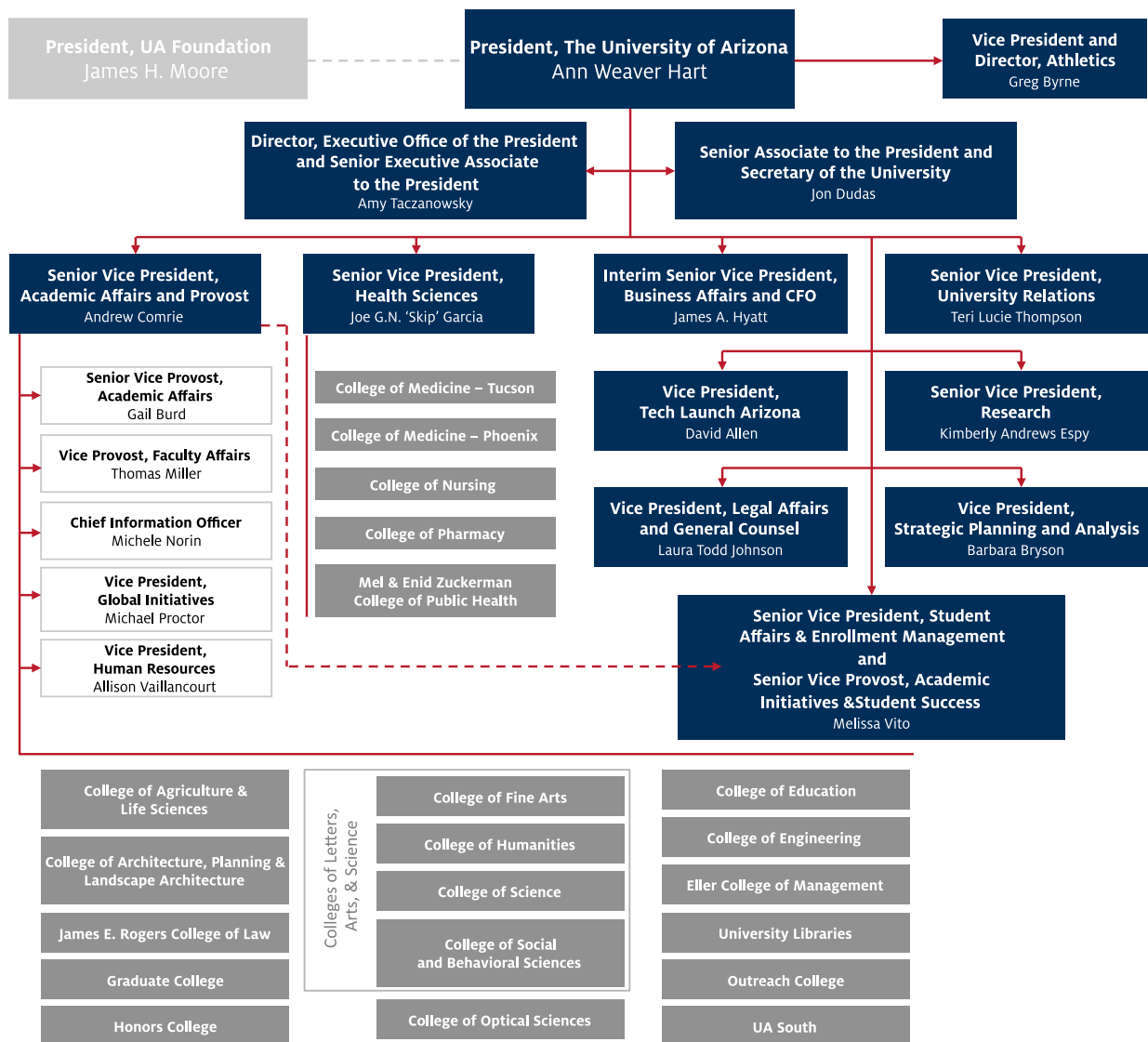
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Kathryn E. Whisman
Assistant Vice President, Budget Office

Jon Dudas
*Senior Associate to the President
and Secretary of the University*

Barbara Bryson
Vice President for Strategic Planning and Analysis

Organization Chart ▶▶▶



◀◀ Financial Section



Photo: UA External Relations

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 statements were audited by other auditors whose reports 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 from 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the University's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As described in Note 1, the University's financial statements are intended to present the financial position, 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 transactions of the University. They do not purport to, and do not, present fairly the financial position of the State of Arizona as of June 30, 2014, the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the Management's Discussion and Analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the University's basic financial statements. The combining statements and the introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S.

Independent Auditors' Report

generally accepted auditing standards by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of the other auditors, the combining statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

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* in considering the University's internal control over financial reporting and compliance.

Debbie Davenport
Auditor General

October 10, 2014

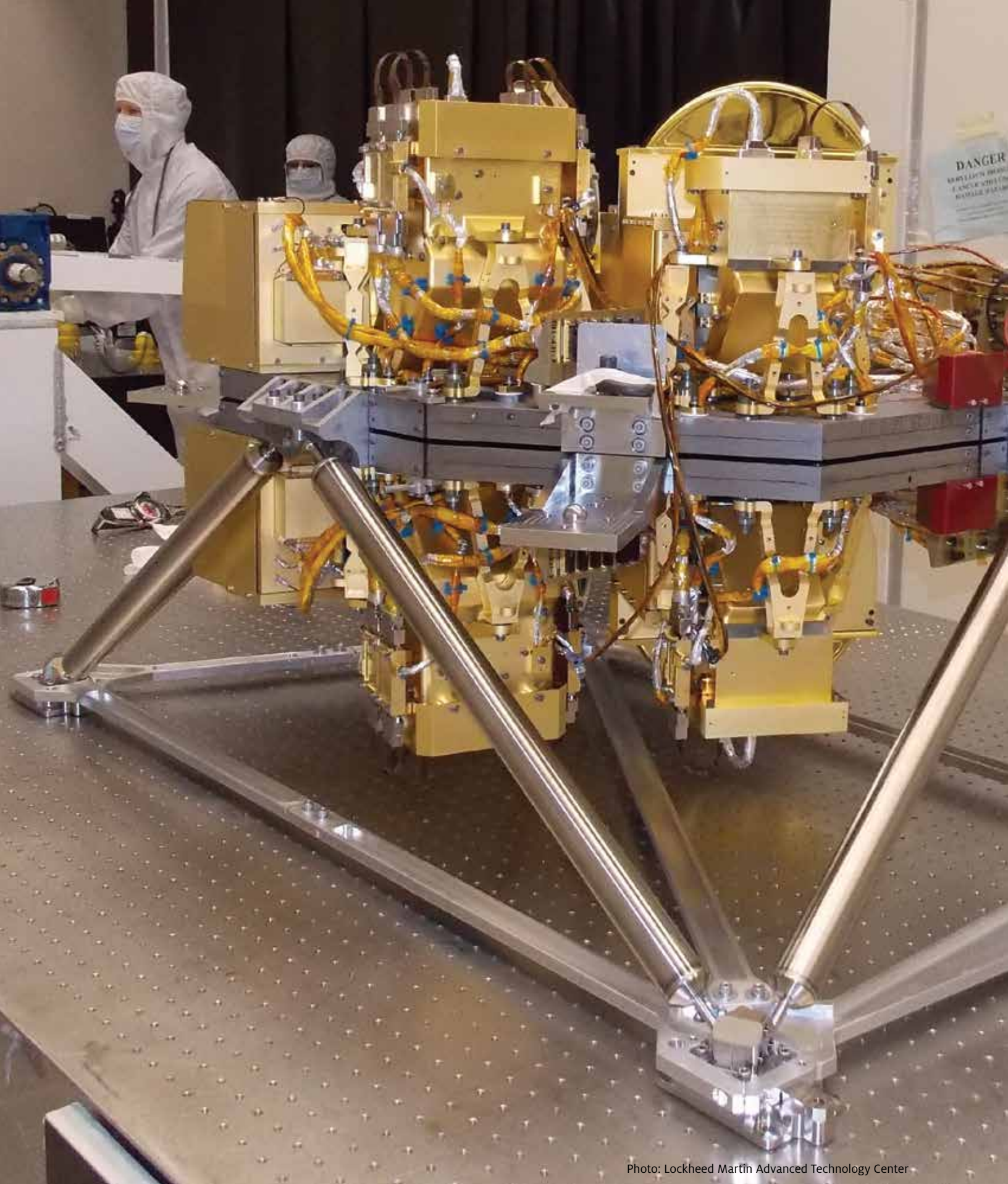


Photo: Lockheed Martin Advanced Technology Center



Photo: UA External Relations

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, data 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.

In fiscal year 2014, the University implemented GASB statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. For the University, long-term debt has been adjusted due to the implementation of GASB Statement No. 65, which required deferred costs of refundings to be reclassified from long-term liabilities to deferred outflows of resources. A summary of the restatement of net position due to the implementation of GASB Statement No. 65 can be found in Note 1 of the accompanying notes to the financial statements.

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 Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. While audited financial statements for the 2012-2013 fiscal year are not presented with this report, condensed data will be presented in the MD&A to illustrate certain increases and decreases in comparing with fiscal year 2013-2014 data.

Overview of Financial Statements

Statement of Net Position

The Statement of Net Position 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 Position provides a picture of the net position and their availability for expenses of the University. The change in net position is one indicator of whether the financial condition has improved or worsened during the fiscal year when considered with nonfinancial facts, such as enrollment levels and the condition of facilities. For fiscal year 2013-2014, the net position for the University has increased by \$78.9 million, taking into consideration the effect of the University's implementation of GASB Statement No. 65 during fiscal year 2013-2014.

CONDENSED SCHEDULE OF ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES AND NET POSITION

A comparison of the University's assets, deferred outflows of resources (consumption of the University's net position that is applicable to a future reporting period), liabilities and net position (in thousands of dollars) at June 30, 2014, and at June 30, 2013, is as follows:

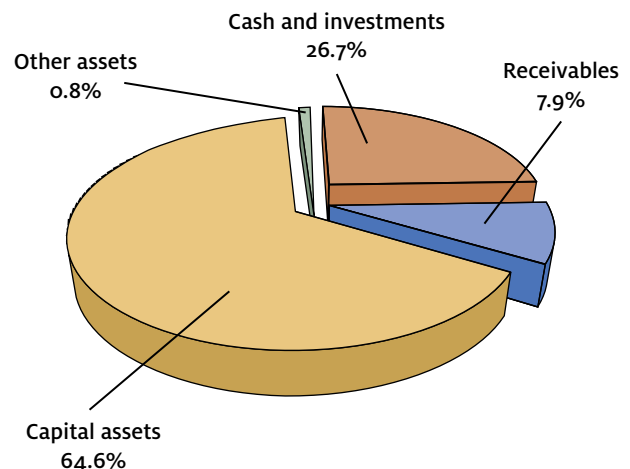
	2014	2013	% Change
Other assets	\$ 976,824	\$ 999,203	-2%
Capital assets	1,780,911	1,719,964	4%
Total assets	\$ 2,757,735	\$ 2,719,167	1%
Deferred charges on refunding of debt*	\$ 14,394		100%
Total deferred outflow of resources	\$ 14,394		100%
Other liabilities	\$ 159,423	\$ 137,027	16%
Long-term liabilities	1,327,116	1,363,442	-3%
Total liabilities	\$ 1,486,539	\$ 1,500,469	-1%
Net position			
Net investment in capital assets	\$ 612,081	\$ 610,237	0%
Restricted - nonexpendable	138,512	122,635	13%
Restricted - expendable	161,894	124,582	30%
Unrestricted	373,103	361,244	3%
Total net position	\$ 1,285,590	\$ 1,218,698*	5%

*Note: The University implemented GASB Statement No. 65 in fiscal year 2013-14; therefore, deferred outflows of resources was not a required presentation in fiscal year 2012-13. The amount of deferred outflows of resources that would have been presented for FY 13 is considered immaterial. Further, the implementation of GASB Statement No. 65 resulted in a restatement of the University's beginning net position to account for the issuance costs being recognized as an expense in the period incurred. This restatement has not been reflected in the year to year comparison here due to its immateriality.

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 (in thousands of dollars) and percent:

Cash and investments	\$ 737,087	26.7%
Receivables	218,434	7.9%
Capital assets	1,780,911	64.6%
Other assets	21,303	0.8%
Total Assets	\$ 2,757,735	100.0%



When compared to fiscal year 2012-2013, total assets for the University increased by \$38.6 million. The rise was attributable to an increase in capital assets of \$61.0 million and a growth in receivables of \$2.0 million, offset by a decrease in other assets of \$8.5 million and a drop in cash and investments of \$15.9 million. The net increase in capital assets is primarily due to the completion of North End Zone and Residence Life capital projects, coupled with construction in progress for the Health Science Education Building and Old Main renovations (see Capital and Debt Analysis on page 26 for more information) offset by annual accumulated depreciation. The decrease in cash and investments was primarily due to the spend-down of bond proceeds for various building construction and renewal projects across the campus (see Capital and Debt Analysis on page 26 for more information). The increase in receivables stems from an upsurge in general receivables of \$6.4 million, which includes a receivable for Intercollegiate Athletics (ICA) for National Collegiate Athletic Association (NCAA) Football of \$3.1 million and an increase of \$1.1 million in student loans receivable. The growth in general receivables was offset by a reduction in government grants receivable of \$4.3 million. The reduction in government grants receivable was primarily due to decreased billings of ARRA funding for College of Medicine – Phoenix Vivarium Construction and the JWST Near Infrared Project. Other Assets decreased primarily due to a drop in other miscellaneous prepaid expenses of \$7.6 million.

Total Deferred Outflows of Resources

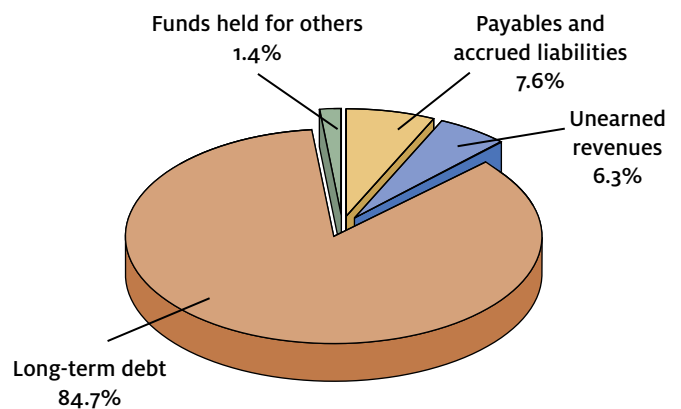
Deferred outflows of resources are consumptions of the University's net position that are applicable to a future reporting period. The University included deferred charges on refunding of debt as the only Deferred Outflows of Resources. In prior years, prior to the implementation of GASB Statement No. 65, these were accounted for as a part of long-term debt. The following table presents deferred outflows of resources (in thousands of dollars):

Deferred charges on refunding of debt	\$ 14,394
Total Deferred Outflows of Resources	\$ 14,394

Total Liabilities

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

Payables and accrued liabilities	\$ 113,546	7.6%
Unearned revenues	93,140	6.3%
Long-term debt	1,259,686	84.7%
Funds held for others	20,167	1.4%
Total Liabilities	\$ 1,486,539	100.0%



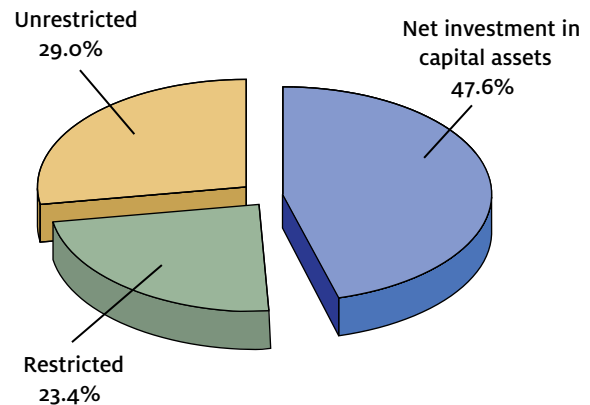
Total liabilities decreased by \$13.9 million compared to fiscal year 2012-13 due to the following: a decrease in long term debt of \$28.1 million and funds held for others of \$11.1 million which is offset by a net \$25.3 million increase in unearned revenue and other liabilities. The decrease in long-term debt is due to the principal retirement of long-term debt offset by changes to deferred charges on refunding of debt from the University's implementation of GASB Statement No. 65. The decrease in funds held for others was primarily due to the distribution of Federally Insured Contributions Act (FICA) refunds received in fiscal year 2013. The change in unearned revenues was primarily due to an increase in sponsored projects unearned revenue for private and foreign grants and contracts of \$11.3 million, an increase in summer session unearned revenue of \$7.0 million, while the increase in other liabilities of \$4.4 million is due to an additional day of accrual for payroll and benefits.

Total Net Position

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

Net investment in capital assets	612,081	47.6%
Restricted	300,406	23.4%
Unrestricted	373,103	29.0%
Total Net Position	\$ 1,285,590	100.0%

Unrestricted net position increased by \$11.9 million or 3.3% from \$361.2 million in fiscal year 2013 to \$373.1 million in fiscal year 2014. The increase in unrestricted net position is primarily due to increases in student tuition and fees of \$23.2 million and State appropriations of \$10.4 million, offset by the distribution to medical students of FICA refunds received in FY 2013 and a decrease in health and medical contracts of \$7.3 million. Restricted net position increased by \$53.2 million or 21.5% from \$247.2 million in fiscal year 2013 to \$300.4 million in fiscal year 2014. The increase in restricted net position primarily is due to an increase in market value of endowments of \$9.8 million, new or additional endowment contributions of \$5.1 million, receipt of restricted capital gifts for ICA capital projects of \$25.6 million, and receipt of \$4.8 million due to the early receipt of debt service funds by the bond trustees.



Statement of Revenues, Expenses and Changes in Net Position

The Statement of Revenues, Expenses and Changes in Net Position presents the University's revenues earned and the expenses incurred during the 2013-2014 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. During the fiscal year, the University incurred capital financing costs. These costs are reported as nonoperating expenses.

CONDENSED SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

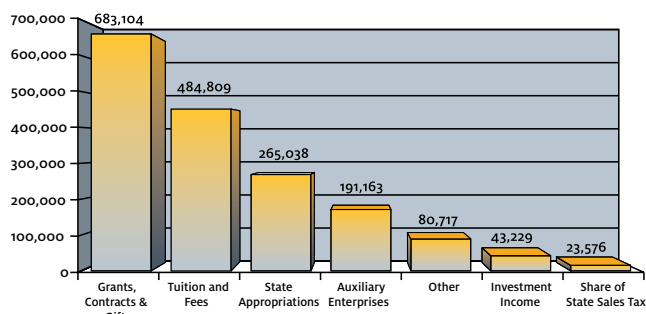
A comparison of the University's operations (in thousands of dollars) for the year ended June 30, 2014, and for the year ended June 30, 2013, is as follows:

	2014	2013	% Change
Operating revenues			
Student tuition and fees, net	\$ 484,809	\$ 461,580	5%
Grants and contracts	417,287	473,349	-12%
Auxiliary enterprises	191,163	190,199	1%
Other	60,708	50,236	21%
Total operating revenues	\$ 1,153,967	\$ 1,175,364	-2%
Operating expenses			
Instruction and academic support	\$ 629,267	\$ 564,959	11%
Research and public service	481,252	526,654	-9%
Student services and scholarships	110,450	100,770	10%
Institutional support and operation of plant	204,053	188,643	8%
Auxiliary enterprises	160,938	156,954	3%
Depreciation	116,781	113,345	3%
Total operating expenses	\$ 1,702,741	\$ 1,651,325	3%
Operating loss	\$ (548,774)	\$ (475,961)	15%
Nonoperating revenues (expenses)			
State appropriations	\$ 265,038	\$ 254,654	4%
Grants, contracts and gifts	265,817	274,104	-3%
Share of State sales tax revenues	23,576	20,773	13%
Investment income	43,229	20,619	110%
Interest expense on debt	(50,596)	(47,643)	6%
Other nonoperating revenues, net	20,009	13,440	49%
Net nonoperating revenues	\$ 567,073	\$ 535,947	6%
Income before capital and endowment additions	\$ 18,299	\$ 59,986	-69%
Capital appropriations	14,253	14,253	0%
Other capital and endowment additions	46,415	18,398	152%
Increase in net position	\$ 78,967	\$ 92,637	-15%
Net position, beginning of year (restated)	1,206,623	1,126,061	7%
Net position, end of year	\$ 1,285,590	\$ 1,218,698	5%

Total Revenues

The following chart represents total revenues of \$1,771,636 for fiscal year 2013-2014:

Total Revenues (in thousands)



Grants, contracts and gifts: Grants, contracts and gifts revenues decreased by \$64.3 million or -8.6% in comparison to the prior year. Revenues vary from year to year for many reasons, including the availability of funding from sponsors, the commencement or closure of particularly large sponsored projects and unearned revenues. Federal grant revenue decreased by \$58.1 million in fiscal year 2014 primarily due to a decline in

funding from the Department of Health and Human Services of \$29.8 million, National Aeronautic and Space Administration (NASA) of \$13.8 million, National Science Foundation (NSF) of \$3.1 million, and other miscellaneous decreases. Lastly, there was a decrease in health and medical contracts of \$7.3 million.

Student tuition and fees: Tuition and fees rose by \$23.2 million or 5.0% due to approved tuition and fee increases and student enrollment increases in comparison to the prior year.

State appropriations and share of state sales tax revenues: State appropriations increased by \$10.4 million, or 4.0%, in fiscal year 2014. The increase was mainly due to additional appropriations earmarked for the expansion of the University of Arizona College of Medicine-Phoenix Campus in FY2014. The share of sales tax revenues from the TRIF fund also increased by \$2.8 million over the prior year disbursements.

Other capital and endowment additions: The increase in capital and endowment additions is primarily due to an increase in capital gifts for ICA of \$25.6 million in fiscal year 2014. ICA launched a capital gift campaign to raise funds for McKale Center renovations and other ICA capital improvements.

Investment income: A summary of investment income (in thousands of dollars) for the years ended June 30, 2014 and 2013 follows:

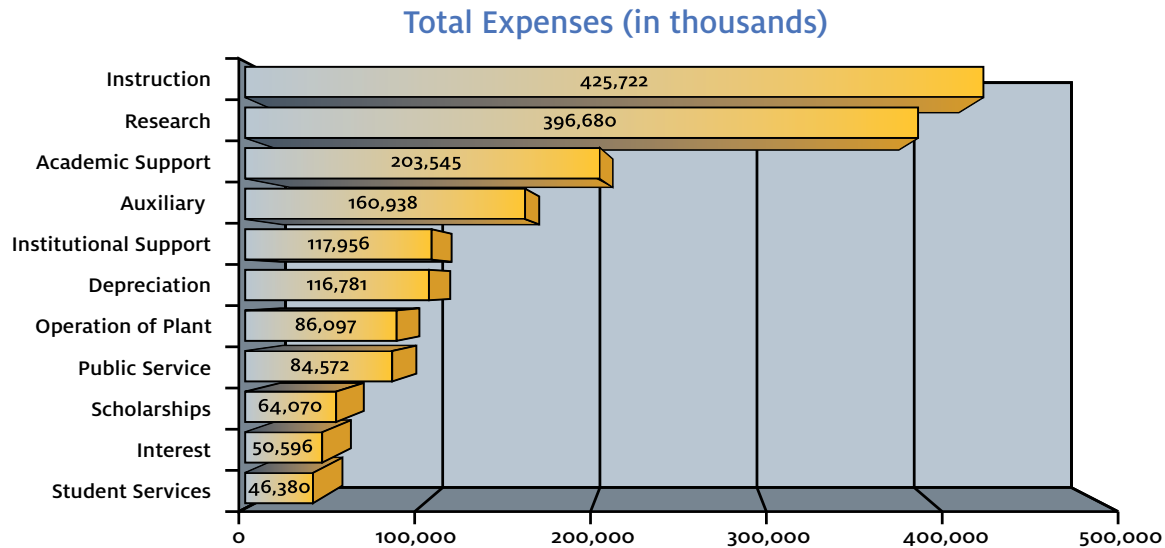
	2014	2013	% Change
Pooled operating funds	\$ 21,857	\$ 10,118	116.0%
Deposits with trustees for capital projects	375	243	54.3%
Endowments	20,997	10,258	104.7%
Total investment income	\$ 43,229	\$ 20,619	109.7%

Pooled operating funds are invested in short and long-term debt instruments not to exceed 5-years. The net increase in pooled operating funds investment income is attributable primarily to a stable interest rate environment. Endowments investment income increased due to participation in public markets through externally managed funds which generated (realized and unrealized) gains in the Endowment Growth and Income Pool.

Other operating and nonoperating revenues: Other operating and nonoperating revenues increased by \$17.0 million or 26.8% in fiscal year 2014. The increase in other operating revenue is primarily due to ongoing sales and service activity of \$6.4 million from the Center for English as a Second Language, Telecom Services, Clinical Research, and Imaging Technology Laboratory Services, and new sales and service activity of \$1.7 million from the National Astronomical Observations in China, Korea Astronomy Space Institute and other collaborations with international companies. The net increase in other nonoperating revenues of \$6.6 million is primarily due to miscellaneous revenues for capital projects of \$4.6 million coupled with a \$0.9 million payment from Campus Research Corporation for the BioPark parcel of land.

Total Expenses

The following chart represents total expenses by functional classification of \$1,753,337 for fiscal year 2013-2014:

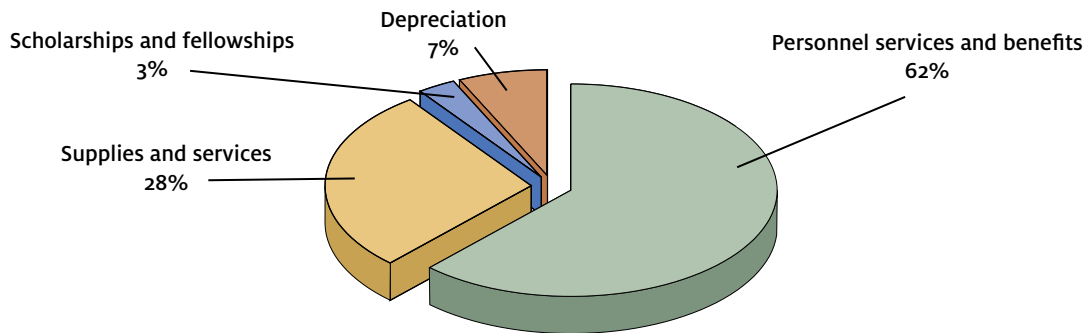


Total expenses increased by \$54.4 million or 3.2% in comparison to fiscal year 2012-2013. The primary functional expense classifications driving the increase were instruction, academic support, institutional support and scholarships and fellowships expenses; offset by a decrease in research expenses. Instruction expenses increased due to the spend-down of a one-time Graduate Tuition Remission subsidy of \$14.1 million received in FY 2013 and an additional \$18.2 million in expenses related to intergovernmental agreements for Graduate Medical Education. Academic support expenses increased due to additional payments for non-federal share contributions towards the State's Safety Net Care Pool Program of \$14.8 million, contractual payments of \$4.3 million to local area hospitals to develop health and medical programs, support payments for the College of Medicine – Phoenix Campus of \$3.2 million, and expenses of \$2.5 million incurred to refresh large classroom equipment. Institutional support increased primarily due to an increase of \$12.5 million in Enterprise Systems development costs that had been capitalized in fiscal year 2013, and additional expenses of \$3.9 million for University Relations and Health Affairs in fiscal year 2014. Scholarships and fellowships expenses increased by \$5.9 million, and were primarily due to a change in student recruitment strategy. The above increases in expenses were offset by a decrease in research expenses primarily due to drops in funding from the Department of Health and Human Services, NASA, and NSF totaling \$26.3 million.

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, 2014 and 2013 follows:

Natural Classification of Operating Expenses:	2014	2013	% Change
Personnel services and benefits	\$ 1,048,926	\$ 1,005,283	4%
Supplies and services	470,546	472,323	0%
Scholarships and fellowships	66,488	60,374	10%
Depreciation	116,781	113,345	3%
Total Operating Expenses	\$ 1,702,741	\$ 1,651,325	3%



Condensed Statement of Cash Flows

The following summarizes cash flows for the 2014 and 2013 fiscal years (in thousands):

Cash Provided By (Used For):	2014	2013
Operating Activities	\$ (402,380)	\$ (362,458)
Noncapital Financing Activities	559,515	583,836
Capital Financing Activities	(216,730)	(101,411)
Investing Activities	50,499	(83,556)
Net Increase (Decrease) in Cash and Cash Equivalents	(9,096)	36,411
Cash and Cash Equivalents, Beginning of Year	120,136	83,725
Cash and Cash Equivalents, End of Year	\$ 111,040	\$ 120,136

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's capital program is developed through a formal process involving internal committees, the Arizona Board of Regents (ABOR), and the State Joint Committee on Capital Review (JCCR). The process starts with the preparation of a comprehensive annual Capital Improvement Plan (CIP) as required by Arizona Revised Statutes §41-793 and ABOR policy 7-106. The CIP presents the University's strategic plan on space and capital acquisition to meet short 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 focuses on addressing space deficiencies in academic, research, student housing and support service facilities. The CIP also provides a summary of debt information including debt ratio projection to comply with ABOR policy and state statutes. The projects in the CIP are prioritized at a later date by University management and presented to ABOR for approval through the Capital Development Plan (CDP). The CDP will allow the University to proceed with designing the project and then resubmit the project for approval to start construction. If a project requires debt financing, the University must submit a financing plan to ABOR for approval and submit the project and financing plan to the state JCCR for review.

During fiscal year 2014, the University completed and placed in service the Intercollegiate Athletics (ICA) football stadium North End Zone Expansion project. The expansion project provided an additional 183,600 gross square feet to support ICA staff, student athletes, and fans. The North End Zone Expansion project was constructed at a total cost of \$72.3 million and was financed by a System Revenue Bond (SRB). The annual debt service on the SRB is being funded 100% by gift revenues received by ICA. In addition to the North End Zone Expansion project, the University completed two renovation projects located in the Student Union Memorial Center and the Main Library at a total cost of \$1.0 million. The renovations provided 2,890 gross square foot of additional space for student services. Detailed capital asset information can be found in Note 5 of the accompanying notes to the financial statements.

The University generally finances capital improvements and acquisitions through the issuance of System Revenue Bonds (SRBs), Stimulus Plan for Economic and Education Development (SPEED) Revenue Bonds, or Certificates of

Participation (COPs). Prior to issuing any Bonds or COPs, the University must submit a financing and funding plan to ABOR for approval. Additionally, the plan is required to be reviewed by the State Joint Committee on Capital Review (JCCR). The amount of debt the University is able to issue is limited by a debt ratio of 8% as defined by State law (Arizona Revised Statutes §15-1683) and ABOR policy 7-102(D)(3). 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, 2014, the University's debt ratio was 5.1%. The University's credit rating on its outstanding SRBs is Aa2 by Moody's and AA- by Standard and Poor's. Detailed debt and debt service information can be found in Note 8 of the accompanying notes to the financial statements.

Economic Outlook

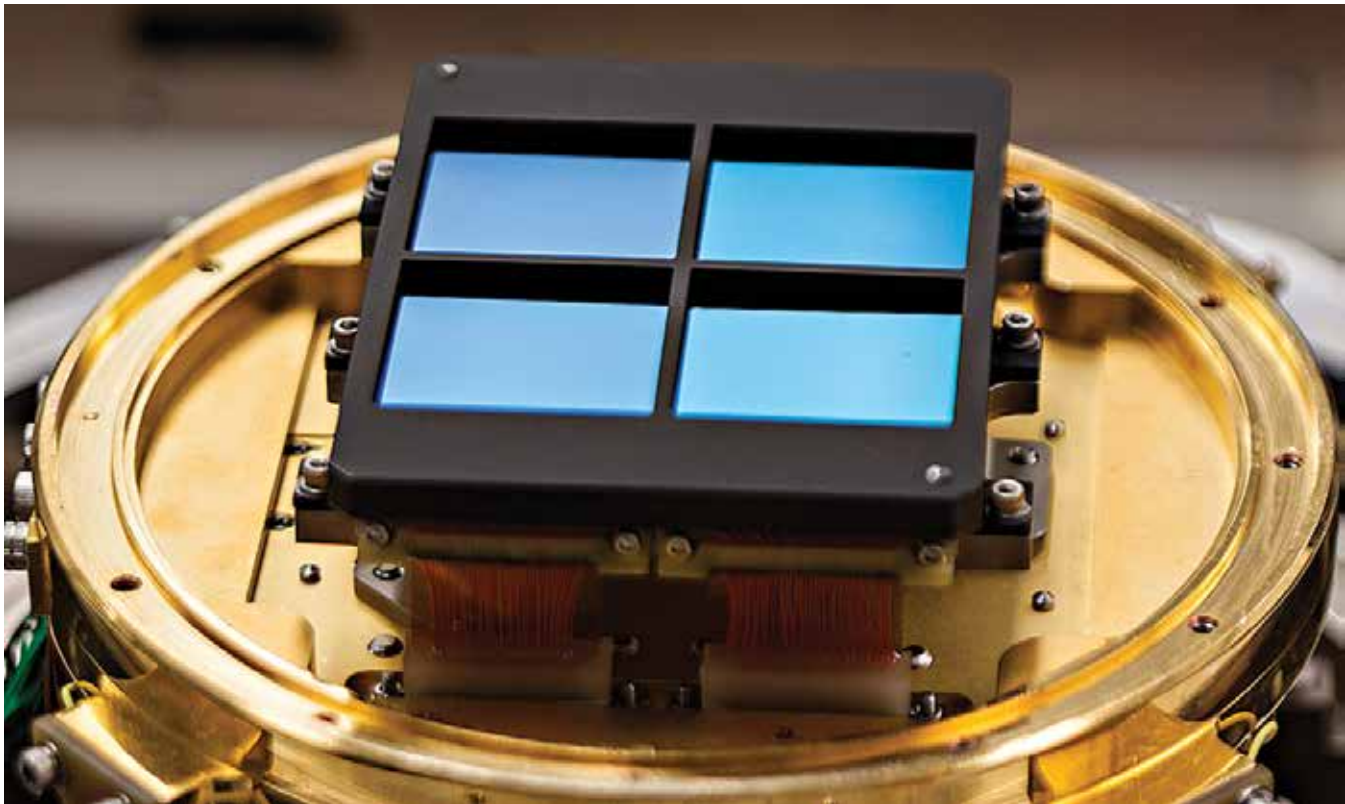
The State forecasted its base revenue (consisting primarily of sales, individual, and corporate taxes) growing at the rate of 5.3% for FY 2015 in comparison to 4.3% in FY 2014. Although the State base revenues are growing at a rate of 5.3% for FY 2015, estimates for the Urban Revenue Sharing program and newly enacted tax law changes have adjusted revenue down. These adjustments resulted in an overall decrease in the State's Total General Fund revenues by \$56.1 million, or -0.6%, for FY 2015 in comparison to FY 2014. Highlights of the State fiscal year 2015 budget included changes to the Baseline of the following areas: \$112.0 million for the newly-created Department of Child Safety, \$30.0 million for the Department of Public Safety, \$28.0 million for non-child welfare items in the Department of Economic Security, \$21.0 million for K-12 education, \$20.0 million for the three State universities, \$15.0 million for increased Building Renewal funding for ADOA, University and Department of Corrections building systems, and \$23.0 million for other state agencies. Funding for the three State universities includes \$12.0 million in additional parity funding to Arizona State University and Northern Arizona University, \$4.5 million in additional operating funding for the three State universities, and \$3.5 million for the University of Arizona's cooperative extension. The fiscal year 2015 appropriation to the University is \$278.9 million, which does not include the \$78.9 million deferral of its base funding in fiscal year 2014. The State has made its prior year deferral payments. It is anticipated that the State will continue to take a conservative approach to state spending and budgeting in the immediate fiscal periods to come.

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 Arizona Board of Regents voted to increase undergraduate tuition by 1.9% for resident students for

the 2014-2015 fiscal year with non-resident undergraduate students experiencing a 4.9% increase. While the University and Arizona Board of Regents recognize the fiscal pressures the State of Arizona has been managing, the University also implemented a guaranteed tuition program starting in Fall 2014. The guaranteed tuition program for qualified incoming students is a constant tuition rate set by ABOR for eight semesters. The percentage increase stated above does not include the guaranteed tuition rates.

Since the University is ultimately subject to the same economic variables that affect other financial entities, it is difficult 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.



This shows one of the NIRCAM light sensor packages (Focal Plane Assembly) that was assembled and tested on campus in a Steward Observatory Clean Room. Photo: Ken Don, The University of Arizona.

Statement of Net Position

June 30, 2014 (in thousands of dollars)

Assets

Current assets

Cash and cash equivalents (Note 3)	\$ 87,723
Short-term investments (Note 3)	18,715
Receivables:	
Accounts receivable (net of allowances of \$1,200)	55,754
Receivable from the State of Arizona	79,379
Government grants receivable	54,666
Student loans (net of allowances of \$297)	1,703
Inventories	8,166
Prepaid expenses	10,367
Total current assets	\$ 316,473

Noncurrent assets

Restricted cash and cash equivalents (Note 3)	\$ 23,317
Restricted investments with bond trustees (Note 3)	81,360
Long-term investments (Notes 3 and 4)	236,754
Endowment investments (Note 3)	289,218
Student loans receivable (net of allowances of \$3,389)	16,521
Long-term receivables	10,411
Prepaid expenses	2,770
Capital assets, not being depreciated (Note 5)	336,458
Capital assets, being depreciated, net (Note 5)	1,444,453
Total noncurrent assets	\$ 2,441,262
Total Assets	\$ 2,757,735

Deferred Outflow of Resources

Deferred charges on refunding of debt	\$ 14,394
Total Deferred Outflows of Resources	\$ 14,394

Liabilities

Current liabilities

Accounts payable	\$ 42,907
Accrued payroll and benefits	23,376
Accrued compensated absences (Note 7)	8,828
Unearned revenue and deposits (Note 6)	93,140
Funds held for others	13,413
Current portion of long-term debt (Note 8)	
To be funded by University revenues	41,022
To be funded by State of Arizona appropriations and State Lottery monies	2,405
Total current liabilities	\$ 225,091

Noncurrent liabilities

Accrued compensated absences (Note 7)	\$ 38,435
Funds held for others	6,754
Long-term debt (Note 8)	
To be funded by University revenues	856,428
To be funded by State of Arizona appropriations and State Lottery monies	359,831
Total noncurrent liabilities	\$ 1,261,448
Total Liabilities	\$ 1,486,539

Net Position

Net investment in capital assets	\$ 612,081
Restricted for nonexpendable:	
Endowments	116,658
Student loans	21,854
Restricted for expendable:	
Scholarships and fellowships	20,695
Academic/departmental uses	111,328
Capital projects	17,505
Debt service	12,366
Unrestricted	373,103
Total Net Position	\$ 1,285,590

See Notes to Financial Statements

Statement of Financial Position – Component Units

June 30, 2014 (in thousands of dollars)

	University of Arizona Foundation	Other	Total
Assets			
Cash and cash equivalents	\$ 22,798	\$ 7,228	\$ 30,026
Pledges receivable	3,651	533	4,184
Other receivables		1,730	1,730
Investments in marketable securities	768,158	18,179	786,337
Other investments		188	188
Property and equipment, net	12,415	18,673	31,088
Other assets	10,776	6,400	17,176
Total Assets	\$ 817,798	\$ 52,931	\$ 870,729
Liabilities and Net Assets			
Liabilities			
Accounts payable and accrued expenses	\$ 2,378	\$ 1,461	\$ 3,839
Fair value of endowments managed for the University	193,969		193,969
Annuities payable and other trust liabilities	20,141		20,141
Deferred revenue and deposits		5,652	5,652
Short-term and long-term debt		6,682	6,682
Other liabilities	6,302	776	7,078
Total Liabilities	\$ 222,790	\$ 14,571	\$ 237,361
Net Assets			
Unrestricted	\$ 10,353	\$ 29,066	\$ 39,419
Temporarily restricted	120,883	4,651	125,534
Permanently restricted	463,772	4,643	468,415
Total Net Assets	\$ 595,008	\$ 38,360	\$ 633,368
Total Liabilities and Net Assets	\$ 817,798	\$ 52,931	\$ 870,729

See Notes to Financial Statements



Photo: Tim Fuller

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2014 (in thousands of dollars)

Operating Revenues

Student tuition and fees, net of scholarship allowances of \$185,513	\$ 484,809
Federal grants and contracts	308,291
State grants and contracts	11,286
Local grants and contracts	1,614
Nongovernment grants and contracts	96,096
Sales and services of educational departments	44,321
Auxiliary enterprises, net of scholarship allowances of \$5,404	191,163
Other operating revenues	16,387
Total operating revenues	\$ 1,153,967

Operating Expenses

Educational and general	
Instruction	\$ 425,722
Research	396,680
Public service	84,572
Academic support	203,545
Student services	46,380
Institutional support	117,956
Operation and maintenance of plant	86,097
Scholarships and fellowships	64,070
Auxiliary enterprises	160,938
Depreciation (Note 5)	116,781
Total operating expenses	\$ 1,702,741
Operating Loss	\$ (548,774)

Nonoperating Revenues (Expenses)

State appropriations	\$ 265,038
Share of State sales tax revenues	23,576
Federal grants and appropriations	79,287
State and other government grants	16,353
Nongovernment grants and contracts	91,890
Gifts	78,287
Investment income	43,229
Interest expense on debt	(50,596)
Other nonoperating revenues, net	20,009
Net nonoperating revenues	\$ 567,073
Income before Capital and Endowment Additions	\$ 18,299

Capital grants, gifts and conveyances	\$ 31,985
Capital appropriations - Research Infrastructure Capital Financing	14,253
Capital commitment - State Lottery Revenue	9,599
Additions to permanent endowments	4,831
Total capital and endowment additions	\$ 60,668
Increase in Net Position	\$ 78,967

Net Position

Net Position - Beginning of year (restated)	1,206,623
Net Position - End of year	\$ 1,285,590

See Notes to Financial Statements

Statement of Activities – Component Units

Year Ended June 30, 2014 (in thousands of dollars)

	University of Arizona Foundation	Other	Total
Revenues			
Sales and services		\$ 2,172	\$ 2,172
Contributions	\$ 98,685	3,618	102,303
Rental revenues		11,681	11,681
Investment income	70,937	2,167	73,104
Other income	10,255	3,609	13,864
Total revenues	\$ 179,877	\$ 23,247	\$ 203,124
Expenses			
Program services:			
Leasing related expenses		\$ 10,330	\$ 10,330
Payments to the University	\$ 73,409	166	73,575
Payments on behalf of the University	14,829	5,334	20,163
Supporting services:			
Management and general	4,227	2,191	6,418
Fund raising	8,269	278	8,547
Total expenses	\$ 100,734	\$ 18,299	\$ 119,033
Increase/(decrease) in Net Assets	\$ 79,143	\$ 4,948	\$ 84,091
Net Assets - Beginning of year	515,865	33,412	549,277
Net Assets - End of year	\$ 595,008	\$ 38,360	\$ 633,368

See Notes to Financial Statements

Statement of Cash Flows

Year Ended June 30, 2014 (in thousands of dollars)

Cash Flows from Operating Activities

Tuition and fees	\$ 496,014
Grants and contracts	430,628
Payments for salaries, wages and benefits	(1,043,807)
Payments to suppliers	(468,261)
Payments for scholarships and fellowships	(66,488)
Loans issued to students	(3,690)
Collections on loans to students	2,605
Auxiliary enterprise receipts	189,265
Sales and services of educational departments	45,006
Other receipts	16,348
Net cash used for operating activities	\$ (402,380)

Cash Flows from Noncapital Financing Activities

State appropriations	\$ 265,038
Share of State sales tax receipts	24,514
Gifts and grants for other than capital purposes	270,425
Nonoperating receipts for other than capital purposes	12,354
Direct Loans received	221,315
Direct Loans disbursed	(224,670)
Funds held for others received	226,793
Funds held for others disbursed	(236,254)
Net cash provided by noncapital financing activities	\$ 559,515

Cash Flows from Capital Financing Activities

Proceeds from issuance of capital debt, including premiums	\$ 1,142
Capital appropriations, grants and gifts received	45,356
Build America Bonds - federal subsidy	2,972
Capital commitment - State Lottery revenue	11,859
Proceeds from sale of capital assets	261
Purchase of capital assets	(179,274)
Principal paid on capital debt and leases	(48,152)
Interest paid on capital debt and leases	(50,894)
Net cash used for capital financing activities	\$ (216,730)

Cash Flows from Investing Activities

Proceeds from sales and maturities of investments	\$ 157,461
Interest and dividends on investments	22,206
Purchase of investments	(129,168)
Net cash provided by investing activities	\$ 50,499
Net Decrease in Cash and Cash Equivalents	\$ (9,096)

Cash and Cash Equivalents

Cash and Cash Equivalents - Beginning of year	120,136
Cash and Cash Equivalents - End of year	\$ 111,040

See Notes to Financial Statements

Statement of Cash Flows

Year Ended June 30, 2014 (in thousands of dollars)

Reconciliation of Operating Loss to Net Cash Used for Operating Activities

Operating loss	\$ (548,774)
Adjustments to reconcile operating loss to net cash used for operating activities:	
Depreciation expense	116,781
Changes in assets and liabilities:	
Receivables, net	(1,952)
Inventories	890
Prepaid expenses	410
Accounts payable	1,179
Accrued payroll and benefits and compensated absences	5,119
Unearned revenue and deposits	23,967
Net Cash Used for Operating Activities	<u><u>\$ (402,380)</u></u>

Significant Noncash Transactions

Gifts and conveyances of capital assets	\$ 882
Change in fair value of investments	20,799
Amortization of bond discount, prepaid insurance, and deferred cost of refundings	(2,400)
Amortization of bond premium	3,348
Net loss on disposal of capital assets with an original cost of \$12,300 accumulated depreciation of \$10,720 and cash proceeds of \$261	(1,319)
Amortization of IBM unearned rent	4,900

See Notes to Financial Statements



Unveiling the third mirror for the Giant Magellan Telescope (GMT) which was cast inside a rotating furnace at the University of Arizona's Steward Observatory Mirror Lab.
Photo: Chris Summitt

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 12. Fiscal responsibility for the University remains with the State of Arizona; therefore, the University is an integral part of the State of Arizona's Tri-University system, which is an enterprise fund in the State of Arizona's *Comprehensive Annual Financial Report*.

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

The University also implemented the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. GASB Statement No. 65 establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The University's beginning net position balance was restated due to the implementation of GASB No. 65 requiring debt issuance costs, except any portion related to prepaid insurance costs, to be recognized as an expense in the period incurred. The following summarizes the restatement of net position:

Net Position - June 30, 2013, as previously reported	\$ 1,218,698,000
Prior period adjustment due to change in accounting principle	(12,075,000)
Net Position - June 30, 2013, as restated	<u>\$ 1,206,623,000</u>

The University also implemented the provisions of GASB Statement No. 66, *Technical Corrections—2012— an amendment of GASB Statements No. 10 and No. 62*. GASB Statement No. 66 resolves conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting and thereby enhances the usefulness of the financial reports. The implementation of GASB Statement No. 66 had no impact on the University's fiscal year 2014 financial statements and therefore no additional note disclosures were required.

The University also implemented GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. GASB Statement No. 70 improves accounting and financial reporting for governments that extend or receive nonexchange financial guarantees. The implementation of GASB Statement No. 70 had no impact on the University's fiscal year 2014 financial statements and therefore no additional note disclosures were required.

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

- The Statement of Net Position provides information about assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position 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. Deferred outflows/inflows of resources are resources that will be consumed or acquired in a future reporting period. Net position is the residual amount and is classified according to external donor restrictions and availability of assets to satisfy University obligations. Net investment

in capital assets represents capital assets less accumulated depreciation and the amount of related outstanding debt for those assets. Nonexpendable restricted net position is comprised of gifts received for endowment purposes and revolving student loan funds, the corpus of which cannot be expended. Expendable restricted net position represents grants, contracts, gifts, and other resources that have been externally restricted for specific purposes. Unrestricted net position includes the remaining amounts of net position, 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 Position 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 position 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.

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 2014, the expendable rate was established at 4% of the three-year average market value ending December 31, 2012. Donor restricted endowments that are available for expenditure are reported as restricted and expendable on the Statement of Net Position.

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, Pfeiffer, and Gallagher artwork, Ansel Adams, Harry Callahan, and Edward Weston 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)
Land	1	n/a
Construction in progress	100,000	n/a
Buildings and improvements	100,000	15 – 50
Infrastructure	100,000	10 – 100
Equipment		
Various equipment, machinery, vehicles and other	5,000	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

Deferred Outflows – The statement of net position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to future periods that will be recognized as an expense in future periods.

Scholarship Allowances – A scholarship allowance is the difference between the stated charge for tuition and fees or dormitory charges 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 Position.

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, the Campus Research Corporation, and Eller Executive Education, 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* and GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* have set forth criteria to be considered in determining financial accountability. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion under GASB Statement No. 14 – *The Financial Reporting Entity*, a financial benefit or burden relationship also would need to be present between the

primary government and the organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, GASB Statement No. 61 clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making that determination. GASB Statement No. 39 - *Determining Whether Certain Organizations Are Component Units* provides additional criteria for determining whether certain organizations are component units. Organizations that are legally separate, tax-exempt entities and that meet all of the following criteria should also be considered component units, with discrete presentation. These criteria are (1) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the University, its component units, or its constituents; (2) the University or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization; and (3) the economic resources received or held by an individual organization that the University, or its component units, is entitled to, or has the ability to otherwise access, are significant to the University.

Discretely Presented Component Units

The University of Arizona Foundation, Inc. (Foundation) is a legally separate, nonprofit, tax-exempt organization controlled by a separate Board of Directors. The principal goals of the Foundation are to support the University through various fund-raising activities and to contribute funds to the University in support of various programs. Although the University does not control the timing or amount of receipts from the Foundation, the Foundation's restricted resources are significant to the University and can only be used by, or for the benefit of, the University or its constituents. As the University is also entitled to these resources, the Foundation is considered a component unit of the University and is discretely presented in the University's financial statements. The Foundation's financial statements are not publicly available. For information regarding the Foundation's financial statements, contact The University of Arizona Comptroller at the following address: The University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, Arizona 85719-0521.

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

The Law College Association of The University of Arizona (Law Association) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors and was established to provide support and financial assistance to the College of Law at The University of Arizona. The Law Association funds provide support to the College on many levels, from endowed student scholarships to named faculty professorships. The funds also provide support for various academic programs. As the economic resources held by the Law Association are significant to the University and are entirely or almost entirely for the direct benefit of the University, and as the University is entitled to a majority of the economic resources received or held by the Law Association, it is considered a component unit of the University and is discretely presented in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Law Association at the following address: Law College Association, James E. Rogers College of Law at the University of Arizona, 1201 E. Speedway Blvd., 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



Photo: Tim Fuller

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. As the University approves CRC's budget and can access its resources (i.e., leased property and new building construction on the property), fiscal dependency and a benefit/burden relationship exist between the entities, making CRC a component unit. As CRC does not meet any of the blending criteria in GASB 14, as amended, CRC is presented as a discrete component unit in the University's financial statements. Complete copies of the financial statements of the aforementioned component unit can be obtained by contacting the Chief Financial Officer at the following address: The University of Arizona Science and Technology Park, 9070 South Rita Road, Suite 1750, Tucson, Arizona 85747.

Eller Executive Education (EEE) is a legally separate, tax-exempt, nonprofit corporation governed by a separate Board of Directors, all members of which are appointed by the President of the University of Arizona. EEE was established to advance the missions of the Eller College of Management and University of Arizona through noncredit, non-degree programs for business, government and nonprofit leaders. Through leadership and business programs for local, regional and international organizations, EEE helps organizations

solve their leadership challenges. Given that these programs are customized and unlike any typical university course, EEE is able to fill an education market that is not otherwise effectively addressed by the University of Arizona. In the process, EEE advances University goals in outreach, workforce and faculty development. In FY 2014, EEE distributed \$166,000 to the University. As the University President appoints all EEE board members and can remove any member at will, the University can impose its will on EEE, making EEE a component unit. As EEE does not meet any of the blending criteria in GASB 14, as amended, EEE 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 EEE at the following address: Eller Executive Education, 405 McClelland Hall, Tucson, AZ 85721.

NOTE 3. DEPOSITS AND INVESTMENTS

A. General

At year end, the University's deposits and investments had a fair value of \$737,087,000. 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 \$81,360,000 which are held in trust by a commercial bank and available for future construction costs. 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 \$193,969,000 managed by The University of Arizona Foundation, (Foundation) make up a portion of the deposits and investments. These funds are primarily 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 (SEC) 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 \$31,062,000.

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.

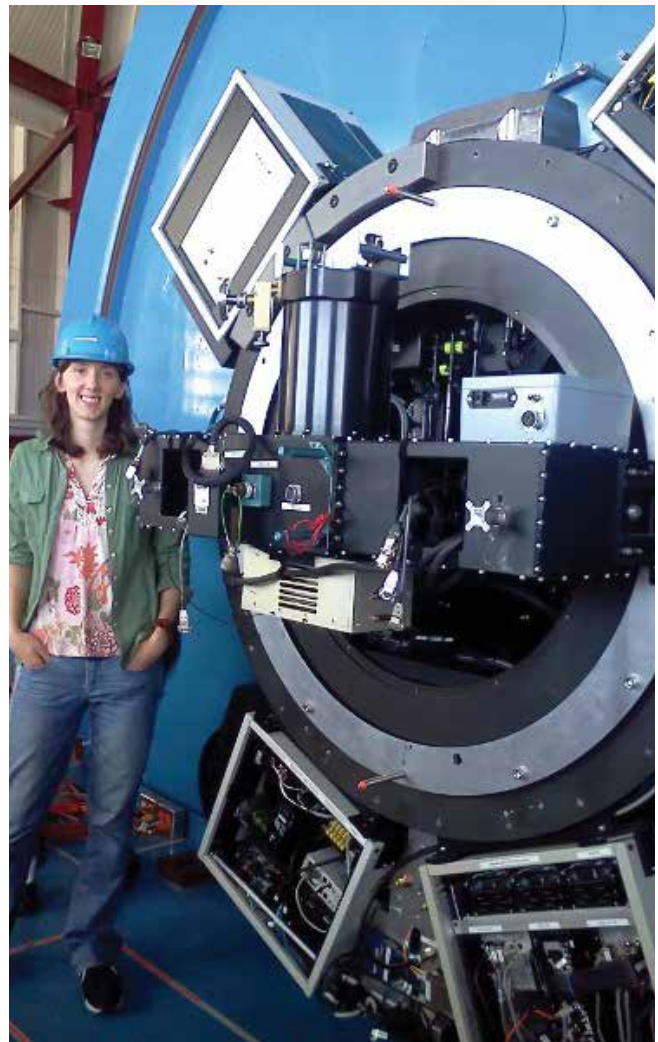
Investment of capital project funds held with bond trustees are subject to investment policy set by the Board and included in bond indentures. The monies may be invested in obligations of or guaranteed by the federal government or any of the senior debt of its agencies, sponsored agencies, corporations, 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 State of Arizona Treasurer's pools are not registered with the SEC. The State of Arizona Board of Investment provides oversight for the State of Arizona Treasurer's pools. The fair value of a participant's portion in the pool approximates the value of that participant's pool shares and the participant's shares are not identified with specific investments.

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



Astronomy grad student Vanessa Bailey at the Magellan Clay telescope (mirror was made by Steward Observatory Mirror Lab). Photo: UA Department of Astronomy.

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 comptroller's demand deposit account. Beyond this requirement, the University does not have a policy that specifically addresses custodial credit risk. At June 30, 2014, \$18,931,000 of the University's total deposits and investments is exposed to custodial credit risk since a portion of the University's endowment funds are held by trustees. These deposits and securities are held by the counterparties in the names of the individual donors as irrevocable trusts for the benefit of the University.

Credit Risk:

With regard to credit risk, University policy 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, \$193,969,000 of the University's 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 University used both Moody's and Standard & Poor's to determine the credit quality ratings of its debt securities. When a debt security investment was rated by only one of the rating agencies, that credit quality rating was disclosed. When a debt security was rated by both rating agencies, the University disclosed the credit quality rating with the greatest degree of risk.

Investment Type	Fair Value	Not Rated	Moody's/Standard & Poor's Rating			
			Aaa/AAA	Aa/AA	A/A	Baa/BBB
Fixed Income Mutual Funds	\$ 15,256,000	15,256,000				
Negotiable Certificates of Deposit*	27,691,000	27,691,000				
Corporate Bonds	164,648,000	10,046,000	1,179,000	20,705,000	97,099,000	35,619,000
Federal Agency Securities	126,026,000			126,026,000		
Money Market Mutual Funds	36,659,000		36,659,000			
Municipal Bonds	3,649,000		1,007,000	2,642,000		
State Treasurer's Pool 3	1,005,000	1,005,000				
	\$ 374,934,000	53,998,000	38,845,000	149,373,000	97,099,000	35,619,000

*Although all of the negotiable certificates of deposit are unrated by Moody's Investor Service or Standard & Poor's, \$17,441,000 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 exceeds 5% of the overall portfolio. At June 30, 2014, the University had investments in the Federal National Mortgage Association with a fair value of \$43,601,000 or 5.9% and in the Federal Home Loan Mortgage Corporation with a fair value of \$40,324,000 or 5.5% of total investments.

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, 2014, utilizing the segmented time distribution method:

Investment Type	Fair Value	Maturity Date			
		< 1 Year	1-5 Years	6-10 Years	> 10 Years
Fixed Income Mutual Funds	\$ 15,256,000	5,316,000	3,791,000	5,999,000	150,000
Negotiable Certificates of Deposit	27,691,000	6,878,000	20,813,000		
Corporate Bonds	164,648,000	13,147,000	151,308,000	193,000	
Federal Agency Securities	126,026,000	59,997,000	65,840,000	189,000	
Money Market Mutual Funds	36,659,000	36,659,000			
Municipal Bonds	3,649,000	1,100,000	2,549,000		
State Treasurer's Pool 3	1,005,000		1,005,000		
U. S. Treasury	31,420,000		31,347,000	73,000	
	\$ 406,354,000	123,097,000	276,653,000	6,454,000	150,000

Foreign Currency Risk:

The University's foreign-currency denominated investments at June 30, 2014 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
Asset Allocation Mutual Funds	Various	\$ 4,384,000
Equity Mutual Funds	Various	3,670,000
Bond/Mutual Funds	Various	2,352,000
Miscellaneous	Various	3,732,000
Total		\$ 14,138,000



Photo: Gaizka Urreiztieta

NOTE 4. JOINT VENTURE AND JOINTLY GOVERNED ORGANIZATION

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, 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 position. 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, \$815,000 in calendar year 2013, as a reduction in its investment. At June 30, 2014, the investment totaled \$12,798,000. According to the most recent draft financial statements of LBT for the year ended December 31, 2013, assets, liabilities, revenues and expenses totaled \$125.0 million, \$3.0 million, \$13.0 million, and \$16.0 million, respectively. For information regarding LBT's financial statements, contact the University of Arizona Comptroller at the following address: University of Arizona, Financial Services, 1303 E. University Blvd., Box 4, Tucson, Arizona 85719-0521.

The Giant Magellan Telescope Organization (GMTO) is a non-stock, nonprofit, jointly governed corporation founded to own and administer the planning, design, construction and operation of the 25-meter Giant Magellan Telescope, a proposed astronomical telescope and its associated buildings, equipment and instrumentation, to be located in northern Chile. The GMTO is jointly governed by several leading educational and research institutions from the United States, South Korea, and Australia, including the University of Arizona. The University comprises two of the fifteen members of the GMTO Board of Directors, and is one of eleven founders and participants. The GMTO will hold all rights, title and interest to and in the telescope. Although the University does not have a defined equity interest, as a founder the University will receive viewing rights to the telescope in proportion to their voluntary contributions to the project.

Although no contributions were made during the current fiscal year, the University has contributed \$9,750,000 to the GMTO as of June 30, 2014, and future contributions are expected. The University will also be responsible for manufacturing the telescope's mirrors and will receive compensation from other GMTO founders and participants based on individual contractual agreements. As of June 30, 2014, the University has received payment on nine contracts related to the project: \$24,302,000 from Observatories of the Carnegie Institution of Washington for mirror construction and process development; \$13,461,000 from the GMTO for mirror construction; \$8,577,000 from the GMTO for acquisition of glass and mold materials; \$3,790,000 from the GMTO for acquisition of glass; \$2,481,000 from the Observatories of the Carnegie Institution of Washington to develop mirror testing systems; \$1,699,000 from the GMTO for acquisition of glass; \$371,000 from the GMTO to develop mirror testing systems; \$270,000 from GMTO for design study; and \$37,000 from GMTO for engineering support.

NOTE 5. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	Beginning Balance July 1, 2013	Additions	Retirements	Transfers/ Reclasses	Ending Balance June 30, 2014
Land	\$ 95,274,000	\$ 1,776,000			\$ 97,050,000
Construction in progress:					
Real Property	207,425,000	138,509,000		\$ (116,276,000)	229,658,000
Intangible Assets	14,971,000			(5,221,000)	9,750,000
Total non-depreciable/amortizable capital assets	<u>\$ 317,670,000</u>	<u>\$ 140,285,000</u>		<u>\$ (121,497,000)</u>	<u>\$ 336,458,000</u>
Buildings and improvements	\$ 1,990,832,000	\$ 2,223,000		\$ 108,389,000	\$2,101,444,000
Infrastructure	202,914,000	2,783,000		7,887,000	213,584,000
Equipment	435,480,000	27,273,000	\$ (10,842,000)		451,911,000
Intangible assets	95,106,000			5,221,000	100,327,000
Library materials	275,895,000	6,744,000	(1,458,000)		281,181,000
Total depreciable/amortizable capital assets	<u>\$ 3,000,227,000</u>	<u>\$ 39,023,000</u>	<u>\$ (12,300,000)</u>	<u>\$ 121,497,000</u>	<u>\$ 3,148,447,000</u>
Less: accumulated depreciation/amortization					
Buildings and improvements	\$ 910,167,000	\$ 64,172,000			\$ 974,339,000
Infrastructure	96,682,000	8,160,000			104,842,000
Equipment	326,069,000	25,292,000	\$ (9,262,000)		342,099,000
Intangible assets	46,098,000	7,819,000			53,917,000
Library materials	218,917,000	11,338,000	(1,458,000)		228,797,000
Total accumulated depreciation/amortization	<u>\$ 1,597,933,000</u>	<u>\$ 116,781,000</u>	<u>\$ (10,720,000)</u>		<u>\$ 1,703,994,000</u>
Depreciable/amortizable capital assets, net	<u>\$1,402,294,000</u>	<u>\$ (77,758,000)</u>	<u>\$ (1,580,000)</u>	<u>\$ 121,497,000</u>	<u>\$ 1,444,453,000</u>
Capital assets, net	<u><u>\$ 1,719,964,000</u></u>	<u><u>\$ 62,527,000</u></u>	<u><u>\$ (1,580,000)</u></u>		<u><u>\$ 1,780,911,000</u></u>

In addition to expenditures through June 30, 2014, it is estimated that \$746,090,000 will be required to complete projects under construction or planned for construction. Of that amount, \$100,715,000 is contractually encumbered.

NOTE 6. UNEARNED REVENUE AND DEPOSITS

Unearned revenue consists primarily of amounts received from grants and contract sponsors that have not yet been earned under the terms of the agreements, tuition and fees received in advance, 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). Unearned 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 \$98.0 million of transferable special revenue bonds to International Business

Machines Corporation (IBM) to enable the University to acquire from IBM a 345-acre developed industrial site near Tucson, Arizona, together with 1,000 acres of adjacent unimproved land (collectively, the University of Arizona Science and Technology Park (Park)). The bonds are payable solely from lease rentals paid by IBM. If IBM defaults or cancels its lease, the bonds must be surrendered and discharged. Title to the entire Park resides with the University and neither the Park nor any payments by the University secures ARPA's bonds. Since the original transaction, IBM has reduced its leasehold to 33% of the building space for periods up to the remaining term of one year. The University has recorded the value of the Park as a capital asset and is amortizing the associated unearned revenue over a 20-year period. This year the University is in its last year of amortizing the associated unearned revenue.

Unearned revenue and deposits at June 30, 2014 consist of the following:

Unearned revenue and deposits at June 30, 2014 consist of the following:

Current Unearned Revenue and Deposits	
Unexpended cash advances received for sponsored programs	\$ 57,815,000
Tuition and fees	17,346,000
Other unearned revenue	9,446,000
Auxiliary sales and services	6,960,000
Deposits	1,103,000
IBM lease related to the acquisition of the Park	470,000
Total current unearned revenue and deposits	\$ 93,140,000

NOTE 7. ACCRUED COMPENSATED ABSENCES

Compensated absences consist of vacation leave earned by employees based on services already rendered. These balances are accrued when earned. Employees may carry forward from one calendar year to the next up to 264 accrued vacation hours depending on classification and years of service. Upon termination, accrued vacation hours up to 176 will be paid. At fiscal year-end, the University accrued all compensated absence balances accumulated to date as a liability in the financial statements. The University does not accrue sick time. Upon retirement, employees with a minimum of 500 hours of accumulated sick time are paid a formulated amount from the Retiree Accumulated Sick Leave (RASL) fund administered by the Arizona State Department of Administration (ASDA). The University pays a percentage

of its payroll for RASL to ASDA and does not have further liability. Accrued compensated vacation for the year ended June 30, 2014, was as follows:

Beginning balance	\$ 43,928,000
Additions	44,593,000
Reductions	<u>(41,258,000)</u>
Ending balance	\$ 47,263,000
Current portion	<u>\$ 8,828,000</u>

NOTE 8. LONG-TERM DEBT & LEASE OBLIGATIONS

Long-term debt activity for the year ended June 30, 2014 was as follows:

	Beginning Balance July 1, 2013*	Additions	Reductions	Ending Balance June 30, 2014	Due Within One Year
Bonds payable	\$ 811,285,000		\$ (22,600,000)	\$ 788,685,000	\$ 21,090,000
Certificates of participation	400,720,000	\$ 145,000	(22,875,000)	377,990,000	17,374,000
Capitalized lease obligations	38,543,000	1,142,000	(2,130,000)	37,555,000	2,002,000
Subtotal long-term debt	\$ 1,250,548,000	\$ 1,287,000	\$ (47,605,000)	\$ 1,204,230,000	\$ 40,466,000
Premium on sale of debt	61,001,000		(3,348,000)	57,653,000	3,112,000
Discount on sale of debt	(2,351,000)		154,000	(2,197,000)	(151,000)
Total long-term debt*	<u>\$ 1,309,198,000</u>	<u>\$ 1,287,000</u>	<u>\$ (50,799,000)</u>	<u>\$ 1,259,686,000</u>	<u>\$ 43,427,000</u>

*The beginning balance for long-term debt has been adjusted due to the implementation of GASB Statement No. 65, which required deferred costs of refundings to be reclassified from long-term liabilities to deferred outflows of resources.

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, 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.

In fiscal year 2013, the University refunded, in advance of maturity, a portion of outstanding System Revenue Bonds Series 2005A. At June 30, 2014, the outstanding principal balance of the refunded bonds was \$26,470,000, which will be paid by investments held in an irrevocable trust with a fair value of \$27,656,000. Accordingly, the trust

account assets and liability for these defeased bonds are not included in the University’s financial statements.

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, any amounts owed by the University to the federal government, or changes in the law that would reduce or eliminate such payments. Due to the federal sequestration, the University will receive a 7.2% reduction (totaling \$116,000) in the federal interest subsidy for the August 1, 2014 debt service payment. There is no guidance from the Internal Revenue Service on sequestration reductions for February 1 and August 1, 2015 debt service payments.

The following schedule details outstanding bonds payable at June 30, 2014:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1992A – System Revenue Refunding Bonds	\$ 55,490,000	2016	6.20%	\$ 10,240,000
2004B – System Revenue Bonds	50,265,000	2029	4.50%	2,025,000
2005A – System Revenue Bonds	35,570,000	2016	3.625-5.00%	2,625,000
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%	25,430,000
2008A – System Revenue Bonds	43,105,000	2040	4.00-5.00%	38,715,000
2008B – System Revenue Refunding Bonds	18,090,000	2018	3.75-4.00%	4,055,000
2009A – System Revenue Bonds	202,370,000	2039	3.00-5.00%	189,760,000
2012A – System Revenue Bonds	74,050,000	2042	3.00-5.00%	73,850,000
2012B – System Revenue Refunding Bonds	21,860,000	2022	1.29-3.29%	21,180,000
2012C – System Revenue Refunding Bonds	43,920,000	2034	0.85-3.912%	41,900,000
2013A – System Revenue Bonds	69,175,000	2048	3.00-5.00%	69,175,000
2013B – System Revenue Refunding Bonds	34,985,000	2048	3.00-5.00%	34,890,000
Subtotal - System Revenue Bonds	<u>\$ 697,535,000</u>			<u>\$ 531,490,000</u>
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
2013 – SPEED Revenue Bonds	<u>70,125,000</u>	2049	3.75-5.00%	<u>70,125,000</u>
Subtotal – SPEED Revenue Bonds	\$ 257,195,000			\$ 257,195,000
Total	<u><u>\$ 954,730,000</u></u>			<u><u>\$ 788,685,000</u></u>

The following schedule details debt service requirements to maturity for System and SPEED Revenue Bonds payable at June 30, 2014:

Year	Principal	Interest
2015	\$ 21,090,000	\$ 38,326,000
2016	24,345,000	37,481,000
2017	28,725,000	36,376,000
2018	30,140,000	35,254,000
2019	29,570,000	33,980,000
2020-24	142,720,000	150,151,000
2025-29	145,595,000	115,305,000
2030-34	131,580,000	78,639,000
2035-39	121,105,000	47,870,000
2040-44	74,600,000	19,302,000
2045-49	39,215,000	3,582,000
Total	\$ 788,685,000	\$ 596,266,000

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, 2014. 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. For fiscal year 2014, pledged revenues totaled \$1.04 billion of which 5.9% (\$60.8 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, 2048 is \$1.38 billion.



Photo: UA External Relations

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.

The following schedule details outstanding Certificates of Participation payable at June 30, 2014:

Issue	Original Amount	Year of Final Maturity	Interest Rates	Outstanding Principal
1999A Fixed Student Union Certificates	\$ 21,607,000	2020	5.125-5.30%	\$ 2,305,000
2004A Chemistry Bldg. Expansion, Res. Life Phase I, Highland Pkg. Garage, Refund COPS 1994A	42,020,000	2015	5.25%	275,000
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%	14,715,000
2005D Refund COPS 1999A & B	6,655,000	2020	4.125-4.375%	250,000
2005F Refund COPS 2000A & 2001A	14,915,000	2025	4.00-4.50%	9,820,000
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	4.25-5.00%	34,015,000
2006B Refund COPS 2000A & 2001A	12,395,000	2025	4.125-4.50%	8,975,000
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%	14,655,000
2007A Refund COPS 2001A	12,035,000	2025	4.00-4.50%	10,295,000
2007B Refund COPS 2001B & 2002A	50,150,000	2022	4.50%	43,105,000
2007D Refund COPS 2004B	42,895,000	2031	4.00%	42,630,000
2012A-2 Refund COPS 2003A	10,190,000	2022	1.71-3.42%	9,380,000
2012B Refund COPS 2002B	20,600,000	2023	3.00-5.00%	20,340,000
2012C Refund COPS 2003B & 2004A	124,940,000	2031	3.00-5.00%	124,940,000
Total	<u>\$ 471,047,000</u>			<u>\$ 377,990,000</u>

The following schedule details debt service requirements to maturity for Certificates of Participation payable at June 30, 2014:

Year	Principal	Interest
2015	\$ 17,374,000	\$ 18,338,000
2016	23,835,000	15,683,000
2017	29,845,000	15,591,000
2018	31,475,000	14,253,000
2019	33,480,000	12,821,000
2020-24	147,136,000	41,115,000
2025-29	68,230,000	15,770,000
2030-31	26,615,000	1,893,000
Total	<u>\$ 377,990,000</u>	<u>\$ 135,464,000</u>

Capital Leases – The University has entered into various long-term leases to acquire equipment and enhance fixtures and infrastructure. These leases are classified as capital leases since they provide a bargain purchase option, a transfer of ownership by the end of the lease term, or comply with other accounting criteria. The largest lease entered into this fiscal year was with U.S. Bank Equipment Finance for the College of Pharmacy’s computing, storage and networking hardware in the amount of \$548,000 with a 3.90% interest rate and a final payment date of July 15, 2016.

The following schedule details debt service requirements to maturity for capital leases payable at June 30, 2014:

Year	Capital Lease Payments
2015	\$ 3,925,000
2016	3,618,000
2017	3,245,000
2018	2,804,000
2019	2,645,000
2020-24	13,400,000
2025-29	13,739,000
2030-34	12,580,000
2035-39	1,780,000
2040-44	255,000
2045-49	255,000
2050-54	305,000
2055-59	382,000
2060-64	382,000
2065-69	382,000
2070-72	229,000
Total minimum lease payments	<u>\$ 59,926,000</u>
Less: interest	(22,371,000)
Present value of net minimum lease payments	<u>\$ 37,555,000</u>

Capital Asset Financing – Following is a summary of capital assets financed by certificates of participation and capital leases at June 30, 2014:

Land	\$ 10,859,000
Buildings and improvements	492,366,000
Infrastructure	34,273,000
Equipment	23,420,000
Total cost of assets	<u>\$ 560,918,000</u>
Less: accumulated depreciation	(228,746,000)
Carrying value of assets	<u><u>\$ 332,172,000</u></u>

Operating Leases - The University has entered into certain operating leases, generally with options for annual renewal, and other rental agreements for real property and equipment. For fiscal year 2014, rent expenses totaled \$27,051,000.

The following schedule details future operating lease payments to maturity:

Year	Operating Lease Payments
2015	\$ 3,875,000
2016	1,901,000
2017	1,648,000
2018	1,075,000
2019	663,000
Total	<u><u>\$ 9,162,000</u></u>

NOTE 9. SELF-INSURANCE PROGRAM

The University is exposed to various risks of loss related to: torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The University participates in a self-insurance program administered by the State of Arizona Department of Administration, Risk Management Division. Arizona Revised Statutes §41-621 *et seq* provides that losses eligible for coverage and not covered by insurance will be paid by the State from the self-insurance program or by a future appropriation from the State Legislature. Loss risks not covered by Risk Management and for which the University has no insurance coverage are losses that arise from contractual breaches, or are directly attributable to an act or omission determined to be a felony by a court of law. With this exception, the University has no significant risk of unfunded 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 three defined contribution pension plans. The Public Safety Personnel Retirement System Plan is not described because of its relative insignificance to the University's financial statements.

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, or visiting www.azasrs.gov.

Funding Policy. For the year ended June 30, 2014, active ASRS members were required to contribute at the actuarially determined rate of 11.54 percent (11.3 percent retirement and .24 percent long term disability) of the members' annual covered payroll. The University was required to contribute at the actuarially determined rate of 11.54 percent (10.70 percent for retirement, .60 percent for health insurance premium, and 0.24 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
2014	\$ 37,219,000	\$ 1,959,000	\$ 847,000
2013	34,050,000	2,173,000	811,000
2012	33,099,000	2,113,000	826,000

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, 2014, plans offered by the Teachers Insurance Annuity Association/College Retirement Equities Fund (TIAA/CREF) 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 companies.

Funding Policy. The Arizona State Legislature establishes the contribution rates for active plan members and the University. For the year ended June 30, 2014, 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 7.00 percent member contribution and a 7.59 percent University contribution for the ASRS plan. Contributions to these plans for the year ended June 30, 2014, were as follows:

Plan	University Contributions	Member Contributions	Total Contributions
TIAA/CREF	\$ 13,936,000	\$ 13,936,000	\$ 27,872,000
Fidelity	10,597,000	10,597,000	21,193,000
ASRS	13,000	12,000	25,000

NOTE 11. OPERATING EXPENSES BY CLASSIFICATION

Operating expenses by functional and natural classification for the year ended June 30, 2014 consist of the following:

	Personal Services and Benefits	Supplies and Services	Scholarships and Fellowships	Depreciation	Total
Instruction	\$ 361,095,000	\$ 64,627,000			\$ 425,722,000
Research	263,799,000	132,881,000			396,680,000
Public service	51,127,000	33,445,000			84,572,000
Academic support	128,467,000	75,078,000			203,545,000
Student services	33,894,000	12,075,000	\$ 411,000		46,380,000
Institutional support	83,682,000	34,274,000			117,956,000
Operation and maintenance of plant	39,801,000	46,296,000			86,097,000
Scholarships and fellowships	648,000		63,422,000		64,070,000
Auxiliary enterprises	86,413,000	71,870,000	2,655,000		160,938,000
Depreciation				\$ 116,781,000	116,781,000
Total Operating Expenses	\$ 1,048,926,000	\$ 470,546,000	\$ 66,488,000	\$ 116,781,000	\$ 1,702,741,000

NOTE 12. 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. fixed income, REIT funds, and international fixed income mutual funds are valued based on quoted market prices. Investments in real estate and natural resources partnerships are recorded at fair value as determined by the general partner based on the appraised value of the partnerships' assets. Absolute return limited partnership and fund interests are recorded at fair value based on quoted market prices (where the underlying investment is a mutual fund) or as determined by the fund manager. Investments in alternative securities are highly susceptible to valuation changes. Private capital and commodity limited partnership interests are recorded at fair value as determined by the fund manager. Investment income or loss comprises the sum of realized and unrealized gains and losses on investments and interest and dividends, less an investment management fee.

Collections

The Foundation capitalizes donated collections (principally photographs, prints and negatives to benefit the University of Arizona's Center for Creative Photography) at a nominal value and includes them in other assets on the statement of financial position.

Annuities Payable and Other Trust Liabilities

Annuities payable and other trust liabilities of \$20,141,000 at June 30, 2014 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 (\$549,000 in the year ending June 30, 2014). The fair values of such assets held in trust at June 30, 2014 total \$38,703,000, of which \$2,361,000 were unrestricted, \$7,471,000 were temporarily restricted and \$28,871,000 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. Payouts made from permanently restricted net assets are reported as released from restriction and transferred to unrestricted net assets.

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 ABOR on behalf of the 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 Tech Park for a series of projects focused on the advancement of solar energy technologies. Under the terms of the agreement, CRC incurred certain infrastructure costs to develop the land to facilitate the construction of a solar zone and TEP reimbursed CRC for a portion of these costs. As CRC enters into various lease agreements with lessees who will construct solar projects, each lessee is charged a prorated portion of the development costs reimbursed by TEP and those costs are 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 Tech Park. Once the water project is complete, title will pass to ABOR 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, 2014:

	Carrying Value	Cost
Domestic/international equity securities and mutual funds	\$ 256,670,000	\$ 200,628,000
Absolute return limited partnerships and funds	213,644,000	168,533,000
U.S. fixed income obligations and mutual funds	95,776,000	92,023,000
Private capital limited partnerships	60,055,000	45,573,000
Commodities and natural resources limited partnerships	45,355,000	42,955,000
International fixed income mutual funds	39,943,000	43,870,000
REIT funds, real estate and timber partnerships	56,715,000	54,104,000
Totals	<u>\$ 768,158,000</u>	<u>\$ 647,686,000</u>

C. Endowment:

The University of Arizona Foundation

The Foundation's endowment consists of approximately 2,275 individual funds (1,610 for the Foundation and 665 for the University) 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 endowment assets are reported as both permanently restricted investment assets and as a liability for the fair value of endowment managed for the University.

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. Payout made from the endowment pool and used in accordance with donor

purposes is reported as permanently restricted net assets released from restriction. The Foundation considers the following factors in making a determination to appropriate donor-restricted endowment funds:

- The net rate of return earned by each endowment account in each of the five most recent fiscal years
- The net real rate of return (as measured by the Higher Education Price Index) earned by the Endowment in each of the five most recent fiscal years (i.e., the duration and preservation of the Endowment Fund)
- Payout rates established by other university endowments as published in the Commonfund and National Association of College and University Business Officers (NACUBO) survey
- Any unusual or extraordinary circumstances impacting the University's flow of funds from other sources (i.e., tuition revenues, State appropriations, etc.)
- The extent to which programs benefiting from the Payout Rate rely on these funds to achieve their goals and objectives (i.e., the purposes of the institution and the Endowment Fund)
- General economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and appreciation of investments per the most recent asset allocation study

The Foundation charges a cost recovery fee (Cost Recovery Fee), a percentage (1.25% in fiscal 2014) 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 \$5,221,000 were recognized by the Foundation in 2014; an additional \$2,287,000 in such fees was collected on behalf of the University in 2014. The Foundation considers the following factors in setting the Cost Recovery Fee:

- The external costs of managing the Endowment
- The internal costs to manage and provide stewardship for the Endowment
- Recommendations from staff and independent investment consultant

The Foundation's goal is to manage Endowment assets such that the annual nominal return exceeds the annual "hurdle rate" (the sum of the Payout and the Cost Recovery Fee) so the Endowment principal is able to grow and continue to fund in perpetuity the set of activities envisioned by the donor at the time of the gift. The Foundation expects its Endowment funds to provide an annual average rate of return of 8.9% with a standard deviation of 8.8%. Actual returns in any given year may vary from this goal. These returns and risks reflect a broadly diversified asset allocation including domestic and international equities, domestic and international fixed income securities, private equity, absolute return, and real asset strategies.

The following shows the composition of the Endowment by net asset type at June 30, 2014 (the University Endowment Assets are classified as Donor Restricted Endowment Funds for financial reporting purposes):

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-Restricted Endowment funds			\$ 643,829,000	\$ 643,829,000
Board-Designated Endowment funds	\$ 4,764,000	\$ 16,807,000		21,571,000
Totals	<u>\$ 4,764,000</u>	<u>\$ 16,807,000</u>	<u>\$ 643,829,000</u>	<u>\$ 665,400,000</u>

The following shows the changes in Endowment net assets for the fiscal year ending June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 4,334,000	\$ 14,249,000	\$ 556,422,000	\$ 575,005,000
Investment return:				
Investment income			7,390,000	7,390,000
Less cost recovery fee			(7,508,000)	(7,508,000)
Net appreciation	429,000	1,559,000	77,274,000	79,262,000
Total investment return	<u>429,000</u>	<u>1,559,000</u>	<u>77,156,000</u>	<u>79,144,000</u>
Contributions/transfers		1,000,000	29,783,000	30,783,000
Appropriation for payout			(19,532,000)	(19,532,000)
Endowment net assets, end of year	<u>\$ 4,763,000</u>	<u>\$ 16,808,000</u>	<u>\$ 643,829,000</u>	<u>\$ 665,400,000</u>

D. Pledges Receivable:

The University of Arizona Foundation

Unconditional promises are included in the financial statements as pledges receivable. These amounts 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, 2014 totaled \$3,651,000.

E. Property and Equipment:

Campus Research Corporation

Property and equipment consisted of the following as of June 30, 2014:

Building and infrastructure improvements	\$ 22,279,000
Furniture, equipment and other property	5,272,000
Total	<u>\$ 27,551,000</u>
Less accumulated depreciation	(8,931,000)
Property and equipment, net	<u><u>\$ 18,620,000</u></u>

Solar Zone Development:

At June 30, 2014 and 2013, approximately \$267,000 of the costs included in solar zone development have not been placed in service.

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 June 2022.	\$ 5,310,000
Non-interest-bearing note payable, Arizona Commerce and Economic Development Commission, payable in monthly principal installments of \$2,000 through April 2016, unsecured.	41,000
Note payable, Wells Fargo Bank, payable in aggregate monthly installments of \$55,000 including interest at various rates ranging from 4.71% to 5.84% through December 2016.	603,000
Note payable, Wells Fargo Bank, payable in monthly installments of \$38,000 including interest at 30-day LIBOR plus 4.25% through March 2016. At June 30, 2014 and 2013, the 30-day LIBOR was 0.155% and 0.194%.	700,000
Total long-term debt	<u><u>\$ 6,654,000</u></u>

The bonds and notes payable to Wells Fargo Bank are collateralized by leasehold interests in real property and an assignment of rents and require the Corporation to be in compliance with certain financial and nonfinancial covenants.

Wells Fargo Bank Arizona issued letter of credit with an original amount of approximately \$11,400,000 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.

G. Interest Rate Swap Agreement:

Campus Research Corporation

The Corporation has 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. Under the swap agreement, the Corporation pays interest at the fixed rate and receives interest at the variable rate. The agreement was not designated as a cash flow hedge.

The swap was issued at market terms so that it had no value at inception. The notional amount under the agreement decreases as principal payments on the note are made. The duration of the swap agreement is structured to coincide with the maturity of the note. As required by GAAP, the carrying amount of the swap has been adjusted to fair value at June 30, 2014. The Corporation's derivative instruments held for risk management purposes at June 30, 2014 had a notional amount of \$5,310,000 and a fair value of \$765,000.

H. Project Operation Agreement (POA):

Campus Research Corporation

The Corporation has an agreement with IBM whereby all common services at the Tech 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 2019. 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. 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.

I. Related Party Transactions:

Eller Executive Education

EEE has an Affiliation Agreement with Arizona Board of Regents, for and on behalf of UA through July 2017. The agreement covers policies, procedures, working relationships respective rights and responsibilities between EEE and UA. UA provides the services of certain employees to perform management and program support functions on a part-time basis for EEE, for which EEE must reimburse UA for all salary and employee related expenses. Program expenses relating to UA during the year ended June 30, 2014 were \$138,000. The Organization also contributed \$166,000 to UA or to specific colleges within the UA during the year ended June 30, 2014.

Law College Association of The University of Arizona

During the year ended June 30, 2014, the Association distributed funds or paid distributions on behalf of the Law College of the University of Arizona in the amount of \$1,468,000.

J. Concentrations:

Eller Executive Education

At June 30, 2014, two customers accounted for 95% of accounts receivable, and three customers comprised 80% of total revenue for the year then ended.

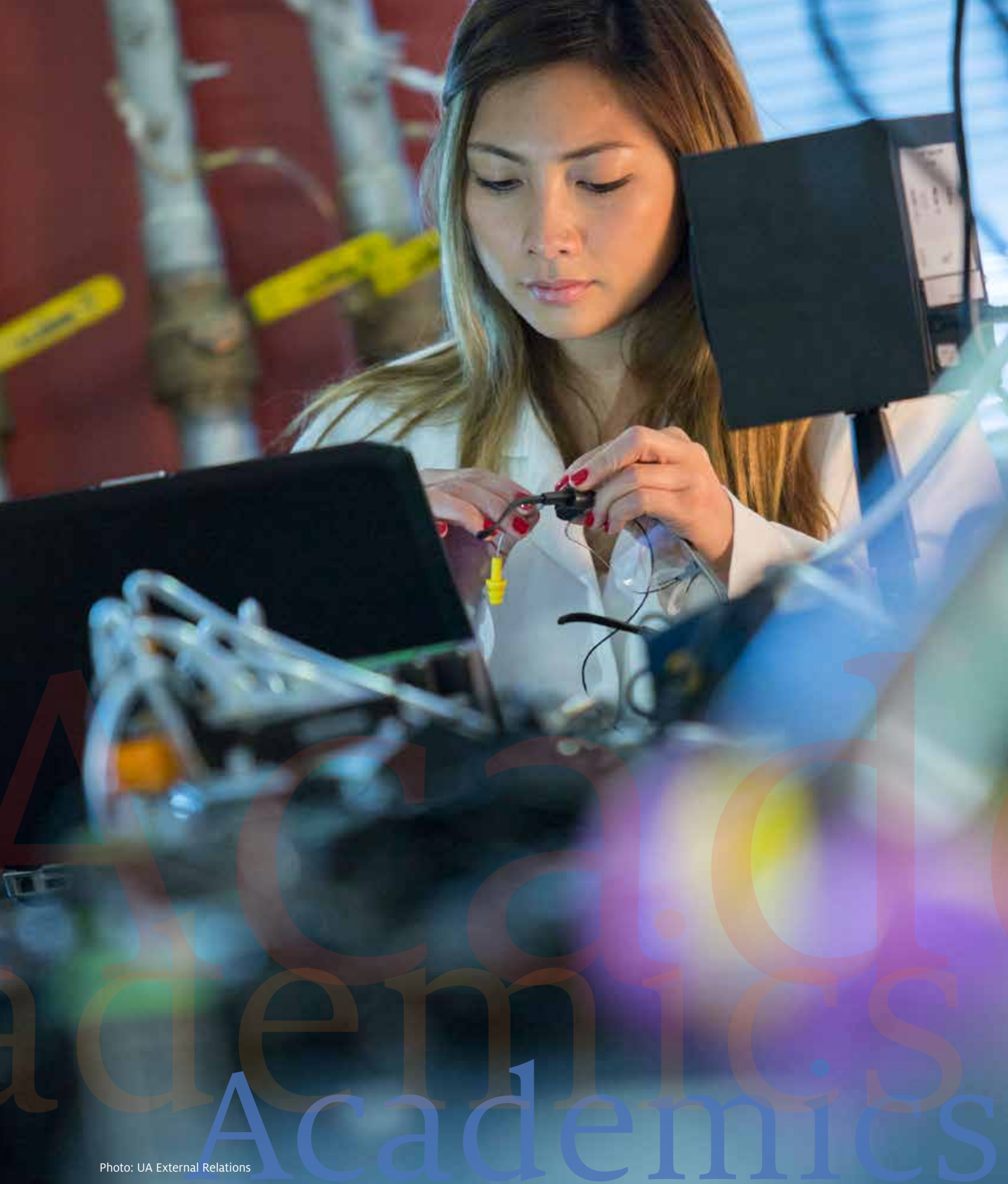


Photo: UA External Relations

◀◀◀ Supplementary Information



McLelland Hall, Photo: Yvette Anchondo

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June 30, 2014

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Combining Statement of Financial Position – Other Component Units

June 30, 2014 (in thousands of dollars)

	Other				Total Nonmajor Component Units
	Campus Research Corporation	Law College Association	UA Alumni Association	Eller Executive Education	
Assets					
Cash and cash equivalents	\$ 4,803	\$ 804	\$ 1,354	\$ 267	\$ 7,228
Pledges receivable		425	108		533
Other receivables	961		726	43	1,730
Investment in marketable securities		11,339	6,840		18,179
Other investments		188			188
Property and equipment, net	18,620		53		18,673
Other assets	6,294	7	79	20	6,400
Total assets	\$ 30,678	\$ 12,763	\$ 9,160	\$ 330	\$ 52,931
Liabilities and Net Assets					
Liabilities					
Accounts payable and accrued expenses	\$ 1,069	\$ 212	\$ 180		\$ 1,461
Deferred revenue and deposits	3,267		2,385		5,652
Short-term and long-term debt	6,654		28		6,682
Other liabilities	765	11			776
Total liabilities	\$ 11,755	\$ 223	\$ 2,593		\$ 14,571
Net Assets					
Unrestricted	\$ 18,923	\$ 3,438	\$ 6,567	\$ 138	\$ 29,066
Temporarily restricted		4,459		192	4,651
Permanently restricted		4,643			4,643
Total net assets	\$ 18,923	\$ 12,540	\$ 6,567	\$ 330	\$ 38,360
Total liabilities and net assets	\$ 30,678	\$ 12,763	\$ 9,160	\$ 330	\$ 52,931

Combining Statement of Activities – Other Component Units

Year ended, June 30, 2014 (in thousands of dollars)

	Other				Total Nonmajor Component Units
	Campus Research Corporation	Law College Association	UA Alumni Association	Eller Executive Education	
Revenues					
Sales and services			\$ 1,107	\$ 1,065	\$ 2,172
Contributions		\$ 3,372	223	23	3,618
Rental revenues	\$ 11,681				11,681
Investment income	8	1,374	785		2,167
Other income	646	288	2,475	200	3,609
Total revenues	\$ 12,335	\$ 5,034	\$ 4,590	\$ 1,288	\$ 23,247
Expenses					
Program services:					
Leasing related expenses	\$ 10,330				\$ 10,330
Payments to the University				\$ 166	166
Payments on behalf of the University		\$ 1,576	\$ 3,032	726	5,334
Supporting services:					
Management and general	1,283	82	710	116	2,191
Fund raising		88	190		278
Total expenses	\$ 11,613	\$ 1,746	\$ 3,932	\$ 1,008	\$ 18,299
Increase/(decrease)					
in Net Assets	\$ 722	\$ 3,288	\$ 658	\$ 280	\$ 4,948
Net Assets - Beginning of year	18,201	9,252	5,909	50	33,412
Net Assets - End of year	\$ 18,923	\$ 12,540	\$ 6,567	\$ 330	\$ 38,360



Photo: NASA Goddard Space Flight Center. This shows NIRCAM being installed into the Integrated Science Instrument Module, ISIM.

Statistical Section

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June 30, 2014

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NET POSITION BY COMPONENT

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Net investment in capital assets	\$ 612,081	\$ 610,237	\$ 578,931	\$ 522,909	\$ 490,309	\$ 466,674	\$ 460,964	\$ 410,573	\$ 388,472	\$427,054
Restricted, Non-expendable	138,512	122,635	113,968	115,307	101,263	94,307	94,610	118,585	106,263	100,077
Restricted, Expendable	161,894	124,582	122,904	137,768	127,599	140,375	158,554	133,550	122,003	105,429
Unrestricted	373,103	361,244	310,258	293,103	254,432	179,821	157,234	165,775	149,522	101,265
Total Net Position	\$1,285,590	\$1,218,698	\$ 1,126,061	\$ 1,069,087	\$ 973,603	\$ 881,177	\$ 871,362	\$ 828,483	\$ 766,260	\$ 733,825
<i>Expressed as a percent of the total</i>	%	%	%	%	%	%	%	%	%	%
Net investment in capital assets	47.6	50.1	51.4	48.9	50.4	53.0	52.9	49.6	50.7	58.2
Restricted, Non-expendable	10.8	10.1	10.1	10.8	10.4	10.7	10.9	14.3	13.9	13.6
Restricted, Expendable	12.6	10.2	10.9	12.9	13.1	15.9	18.2	16.1	15.9	14.4
Unrestricted	29.0	29.6	27.6	27.4	26.1	20.4	18.0	20.0	19.5	13.8
Total Net Position	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Percentage increase (decrease) from prior year</i>	%	%	%	%	%	%	%	%	%	%
Net investment in capital assets	0.3	5.4	10.7	6.6	5.1	1.2	12.3	5.7	(9.0)	N/A
Restricted, Non-expendable	12.9	7.6	(1.2)	13.9	7.4	(0.3)	(20.2)	11.6	6.2	N/A
Restricted, Expendable	29.9	1.4	(10.8)	8.0	(9.1)	(11.5)	18.7	9.5	15.7	N/A
Unrestricted	3.3	16.4	5.9	15.2	41.5	14.4	(5.2)	10.9	47.7	N/A
Total Net Position	5.5	8.2	5.3	9.8	10.5	1.1	5.2	8.1	4.4	N/A

Note: The University implemented GASB 65 in FY 2014, historical data has not been restated in the statistical section.

CHANGE IN NET POSITION

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Revenues										
<i>Operating Revenues</i>										
Student tuition and fees, net	\$ 484,809	\$ 461,580	\$ 410,507	\$ 379,199	\$ 329,586	\$ 269,447	\$ 231,536	\$ 209,521	\$ 193,498	\$ 181,776
Federal grants and contracts	308,291	366,363	362,478	352,835	324,919	303,115	296,338	339,722	346,275	359,881
State grants and contracts	11,286	11,697	14,117	43,272	28,737	24,868	20,370	15,625	12,523	11,495
Local grants and contracts	1,614	2,749	26,820					3,041	2,577	1,994
Nongovernment grants and contracts	96,096	92,540	77,662	64,539	74,447	67,629	64,750	63,761	63,814	64,448
Sales & services of educational departments	44,321	35,951	50,721	36,731	28,873	29,936	25,789	24,490	23,614	22,104
Auxiliary enterprises, net	191,163	190,199	171,017	171,372	165,594	154,698	154,112	143,910	132,183	120,994
Other operating revenues	16,387	14,285	10,906	10,674	9,804	10,356	13,906	12,215	10,209	7,261
Total operating revenues	\$ 1,153,967	\$ 1,175,364	\$ 1,124,228	\$ 1,058,622	\$ 961,960	\$ 860,049	\$ 806,801	\$ 812,285	\$ 784,693	\$ 769,953
Expenses										
<i>Operating Expenses</i>										
Educational and general										
Instruction	\$ 425,722	\$ 391,545	\$ 388,313	\$ 369,734	\$ 357,916	\$ 357,515	\$ 345,242	\$ 324,752	\$ 308,792	\$ 277,190
Research	396,680	435,536	425,993	405,271	395,008	385,467	373,943	351,199	352,409	357,209
Public Service	84,572	91,118	77,312	74,209	70,370	69,843	71,512	65,274	63,725	57,994
Academic support	203,545	173,414	158,831	123,854	100,415	105,426	103,430	95,610	89,725	78,846
Student services	46,380	42,625	39,097	32,396	27,608	28,223	29,146	27,351	25,015	25,848
Institutional support	117,956	99,886	97,558	90,525	83,080	85,264	85,657	78,293	78,252	68,972
Operation and maintenance of plant	86,097	88,757	87,393	87,119	86,342	83,111	85,401	79,369	67,628	61,182
Scholarships and fellowships	64,070	58,145	52,475	55,510	55,316	46,673	41,860	38,373	38,498	45,561
Auxiliary enterprises	160,938	156,954	148,858	158,914	144,096	144,707	140,785	130,567	122,042	113,629
Depreciation	116,781	113,345	107,561	107,770	101,226	99,657	98,084	93,999	84,871	76,979
Total Operating Expenses	\$ 1,702,741	\$ 1,651,325	\$ 1,583,391	\$ 1,505,302	\$ 1,421,377	\$ 1,405,886	\$ 1,375,060	\$ 1,284,787	\$ 1,230,957	\$ 1,163,410
Operating loss	\$ (548,774)	\$ (475,961)	\$ (459,163)	\$ (446,680)	\$ (459,417)	\$ (545,837)	\$ (568,259)	\$ (472,502)	\$ (446,264)	\$ (393,457)
Nonoperating Revenues (Expenses)										
State appropriations	\$ 265,038	\$ 254,654	\$ 268,533	\$ 330,297	\$ 330,297	\$ 348,941	\$ 416,658	\$ 389,897	\$ 358,046	\$ 333,692
Share of State sales tax revenues	23,576	20,773	20,353	19,954	20,102	22,547	28,360	30,744	20,576	21,500
Federal grants and appropriations	79,287	83,064	77,276	80,955	74,308	63,172	58,667			
Federal fiscal stabilization funds				755	28,313	60,824				
State and other government grants	16,353	17,261	1,865	3,506	3,415	4,681	3,589			
Nongovernment grants and contracts	91,890	99,249	4,239	2,996	3,942	2,676	2,805			
Gifts	78,287	74,530	96,201	87,355	79,164	78,156	71,348	58,083	51,111	42,156
Investment income	43,229	20,619	3,386	28,686	18,133	(19,749)	4,176	42,163	25,742	23,301
Interest expense on debt	(50,596)	(47,643)	(44,391)	(50,447)	(45,077)	(40,887)	(41,121)	(38,426)	(31,407)	(26,769)
Other nonoperating revenues, net	20,009	13,440	27,644	13,849	16,063	10,175	24,688	25,123	28,958	3,233
Net nonoperating revenues	\$ 567,073	\$ 535,947	\$ 455,106	\$ 517,906	\$ 528,660	\$ 530,536	\$ 569,170	\$ 507,584	\$ 453,026	\$ 397,113
Income before Capital and Endowment										
Additions	\$ 18,299	\$ 59,986	\$ (4,057)	\$ 71,226	\$ 69,243	\$ (15,301)	\$ 911	\$ 35,082	\$ 6,762	\$ 3,656
Capital grants, gifts and conveyances	\$ 31,985	\$ 9,697	\$ 44,363	\$ 7,279	\$ 7,080	\$ 7,548	\$ 25,173	\$ 12,315	\$ 24,012	\$ 7,921
Capital appropriations	14,253	14,253	14,253	14,253	14,253	14,253	14,253	10,901		
Capital commitment - State Lottery Revenue	9,599	6,470								
Additions to permanent endowments	4,831	2,231	2,415	2,726	1,850	3,315	2,542	3,925	1,661	1,887
Increase (Decrease) in Net Position	\$ 78,967	\$ 92,637	\$ 56,974	\$ 95,484	\$ 92,426	\$ 9,815	\$ 42,879	\$ 62,223	\$ 32,435	\$ 13,464
Total Revenues and Additions										
Total Revenues and additions	\$1,832,304	\$ 1,791,605	\$ 1,684,756	\$ 1,651,233	\$ 1,558,880	\$ 1,456,588	\$ 1,459,060	\$ 1,385,436	\$ 1,294,799	\$ 1,203,643
Total Expenses	1,753,337	1,698,968	1,627,782	1,555,749	1,466,454	1,446,773	1,416,181	1,323,213	1,262,364	1,190,179
Increase (Decrease) in Net Position	\$ 78,967	\$ 92,637	\$ 56,974	\$ 95,484	\$ 92,426	\$ 9,815	\$ 42,879	\$ 62,223	\$ 32,435	\$ 13,464

CHANGE IN NET POSITION

(Expressed as a percent of Total Revenues / Total Expenses)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	%	%	%	%	%	%	%	%	%	%
Revenues										
<i>Operating Revenues</i>										
Student tuition and fees, net	26.5	25.8	24.4	23.0	21.1	18.5	15.9	15.1	14.9	15.1
Federal grants and contracts	16.8	20.4	21.5	21.4	20.8	20.8	20.3	24.5	26.7	29.9
State grants and contracts	0.6	0.7	0.8	2.6	1.8	1.7	1.4	1.1	1.0	1.0
Local grants and contracts	0.1	0.2	1.6	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Nongovernment grants and contracts	5.2	5.2	4.6	3.9	4.8	4.6	4.4	4.6	4.9	5.4
Sales and services of educational departments	2.4	2.0	3.0	2.2	1.9	2.1	1.8	1.8	1.8	1.8
Auxiliary enterprises, net	10.4	10.6	10.2	10.4	10.6	10.6	10.6	10.4	10.2	10.1
Other operating revenues	0.9	0.8	0.6	0.6	0.6	0.7	1.0	0.9	0.8	0.6
Total operating revenues	63.0	65.6	66.7	64.1	61.7	59.0	55.3	58.6	60.6	64.0
Expenses										
<i>Operating Expenses</i>										
<i>Educational and general</i>										
Instruction	24.3	23.0	23.9	23.8	24.4	24.7	24.4	24.5	24.5	23.3
Research	22.6	25.6	26.2	26.0	26.9	26.6	26.4	26.5	27.9	30.0
Public Service	4.8	5.4	4.7	4.8	4.8	4.8	5.0	4.9	5.0	4.9
Academic support	11.6	10.2	9.8	8.0	6.8	7.3	7.3	7.2	7.1	6.6
Student services	2.6	2.5	2.4	2.1	1.9	2.0	2.1	2.1	2.0	2.2
Institutional support	6.7	5.9	6.0	5.8	5.7	5.9	6.0	5.9	6.2	5.8
Operation and maintenance of plant	4.9	5.2	5.4	5.6	5.9	5.7	6.0	6.0	5.4	5.1
Scholarships and fellowships	3.7	3.4	3.2	3.6	3.8	3.2	3.0	2.9	3.0	3.8
Auxiliary enterprises	9.2	9.2	9.1	10.2	9.8	10.0	9.9	9.9	9.7	9.5
Depreciation	6.7	6.7	6.6	6.9	6.9	6.9	6.9	7.1	6.7	6.5
Total Operating Expenses	97.1	97.2	97.3	96.8	96.9	97.2	97.1	97.1	97.5	97.8
Operating loss	(29.9)	(26.6)	(27.3)	(27.1)	(29.5)	(37.5)	(38.9)	(34.1)	(34.5)	(32.7)
Nonoperating Revenues (Expenses)										
State appropriations	14.5	14.2	15.9	20.0	21.2	24.0	28.6	28.1	27.7	27.7
Share of State sales tax revenues	1.3	1.2	1.2	1.2	1.3	1.5	1.9	2.2	1.6	1.8
Federal grants and appropriations	4.3	4.6	4.6	4.9	4.8	4.3	4.0	0.0	0.0	0.0
Federal fiscal stabilization funds	0.0	0.0	0.0	0.0	1.8	4.2	0.0	0.0	0.0	0.0
State and other government grants	0.9	1.0	0.1	0.2	0.2	0.3	0.2	0.0	0.0	0.0
Nongovernment grants and contracts	5.0	5.5	0.3	0.2	0.3	0.2	0.2	0.0	0.0	0.0
Gifts	4.3	4.2	5.7	5.3	5.1	5.4	4.9	4.2	3.9	3.5
Investment income	2.4	1.2	0.2	1.7	1.2	(1.4)	0.3	3.0	2.0	1.9
Interest expense on debt	(2.9)	(2.8)	(2.7)	(3.2)	(3.1)	(2.8)	(2.9)	(2.9)	(2.5)	(2.2)
Other nonoperating revenues, net	1.1	0.8	1.6	0.8	1.0	0.7	1.7	1.8	2.2	0.3
Net nonoperating revenues	30.9	29.9	27.0	31.4	33.9	36.4	39.0	36.6	35.0	33.0
Income before Capital and Endowment Additions	1.0	3.3	(0.2)	4.3	4.4	(1.1)	0.1	2.5	0.5	0.3
Capital grants, gifts and conveyances	1.7	0.5	2.6	0.4	0.5	0.5	1.7	0.9	1.9	0.7
Capital appropriations	0.8	0.8	0.8	0.9	0.9	1.0	1.0	0.8	0.0	0.0
Capital commitment - State Lottery Revenue	0.3	0.4								
Additions to permanent endowments	0.5	0.1	0.1	0.2	0.1	0.2	0.2	0.3	0.1	0.2
Increase (Decrease) in Net Position	4.3	5.2	3.4	5.8	5.9	0.7	2.9	4.5	2.5	1.1

CHANGE IN NET POSITION

(Percentage increase (decrease) from prior year)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	%	%	%	%	%	%	%	%	%	%
Revenues										
<i>Operating Revenues</i>										
Student tuition and fees, net	5.0	12.4	8.3	15.1	22.3	16.4	10.5	8.3	6.4	N/A
Federal grants and contracts	(15.9)	1.1	2.7	8.6	7.2	2.3	(12.8)	(1.9)	(3.8)	N/A
State grants and contracts	(3.5)	(17.1)	(67.4)	50.6	15.6	22.1	30.4	24.8	8.9	N/A
Local grants and contracts	(41.3)	(89.8)	100.0	N/A	N/A	N/A	(100.0)	18.0	29.2	N/A
Nongovernment grants and contracts	3.8	19.2	20.3	(13.3)	10.1	4.4	1.6	(0.1)	(1.0)	N/A
Sales and services of educational departments	23.3	(29.1)	38.1	27.2	(3.6)	16.1	5.3	3.7	6.8	N/A
Auxiliary enterprises, net	0.5	11.2	(0.2)	3.5	7.0	0.4	7.1	8.9	9.2	N/A
Other operating revenues	14.7	31.0	2.2	8.9	(5.3)	(25.5)	13.8	19.6	40.6	N/A
Total operating revenues	(1.8)	4.5	6.2	10.0	11.8	6.6	(0.7)	3.5	1.9	N/A
Expenses										
<i>Operating Expenses</i>										
Educational and general										
Instruction	8.7	0.8	5.0	3.3	0.1	3.6	6.3	5.2	11.4	N/A
Research	(8.9)	2.2	5.1	2.6	2.5	3.1	6.5	(0.3)	(1.3)	N/A
Public Service	(7.2)	17.9	4.2	5.5	0.8	(2.3)	9.6	2.4	9.9	N/A
Academic support	17.4	9.2	28.2	23.3	(4.8)	1.9	8.2	6.6	13.8	N/A
Student services	8.8	9.0	20.7	17.3	(2.2)	(3.2)	6.6	9.3	(3.2)	N/A
Institutional support	18.1	2.4	7.8	9.0	(2.6)	(0.5)	9.4	0.1	13.5	N/A
Operation and maintenance of plant	(3.0)	1.6	0.3	0.9	3.9	(2.7)	7.6	17.4	10.5	N/A
Scholarships and fellowships	10.2	10.8	(5.5)	0.4	18.5	11.5	9.1	(0.3)	(15.5)	N/A
Auxiliary enterprises	2.5	5.4	(6.3)	10.3	(0.4)	2.8	7.8	7.0	7.4	N/A
Depreciation	3.0	5.4	(0.2)	6.5	1.6	1.6	4.3	10.8	10.3	N/A
Total Operating Expenses	3.1	4.3	5.2	5.9	1.1	2.2	7.0	4.4	5.8	N/A
Operating loss	15.3	3.7	2.8	(2.8)	(15.8)	(3.9)	20.3	5.9	13.4	N/A
Nonoperating Revenues (Expenses)										
State appropriations	4.1	(5.2)	(18.7)	0.0	(5.3)	(16.3)	6.9	8.9	7.3	N/A
Share of State sales tax revenues	13.5	2.1	2.0	(0.7)	(10.8)	(20.5)	(7.8)	49.4	(4.3)	N/A
Federal grants and appropriations	(4.5)	7.5	(4.5)	8.9	17.6	7.7	N/A	N/A	N/A	N/A
Federal fiscal stabilization funds	N/A	N/A	(100.0)	(97.3)	(53.5)	N/A	N/A	N/A	N/A	N/A
State and other government grants	(5.3)	825.5	(46.8)	2.7	(27.0)	30.4	N/A	N/A	N/A	N/A
Nongovernment grants and contracts	(7.4)	2,241.3	41.5	(24.0)	47.3	(4.6)	N/A	N/A	N/A	N/A
Gifts	5.0	(22.5)	10.1	10.3	1.3	9.5	22.8	13.6	21.2	N/A
Investment income	109.7	508.9	(88.2)	58.2	(191.8)	(572.9)	(90.1)	63.8	10.5	N/A
Interest expense on debt	6.2	7.3	(12.0)	11.9	10.2	(0.6)	7.0	22.3	17.3	N/A
Other nonoperating revenues, net	48.9	(51.4)	99.6	(13.8)	57.9	(58.8)	(1.7)	(13.2)	795.7	N/A
Net nonoperating revenues	5.8	17.8	(12.1)	(2.0)	(0.4)	(6.8)	12.1	12.0	14.1	N/A
Income before Capital and Endowment Additions										
Capital grants, gifts and conveyances	229.8	(78.1)	509.5	2.8	(6.2)	(70.0)	104.4	(48.7)	203.1	N/A
Capital appropriations	0.0	0.0	0.0	0.0	0.0	0.0	30.7	N/A	N/A	N/A
Capital commitment - State Lottery Revenue	48.4	100.0								
Additions to permanent endowments	116.5	(7.6)	(11.4)	47.4	(44.2)	30.4	(35.2)	136.3	(12.0)	N/A
Increase (Decrease) in Net Position	(14.8)	62.6	(40.3)	3.3	841.7	(77.1)	(31.1)	91.8	140.9	N/A

OPERATING EXPENSES BY NATURAL CLASSIFICATION

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Personal Services and Benefits	\$1,048,926	\$1,005,283	\$ 981,904	\$ 953,033	\$ 912,762	\$ 921,236	\$ 898,364	\$ 838,739	\$ 806,375	\$ 747,311
Supplies and Services	470,546	472,323	445,084	393,371	355,586	342,581	339,824	316,452	302,311	298,899
Scholarships and Fellowships	66,488	60,374	48,842	51,128	51,803	42,412	38,788	35,597	37,400	40,221
Depreciation	116,781	113,345	107,561	107,770	101,226	99,657	98,084	93,999	84,871	76,979
Total Operating Expenses by Natural Classification	\$1,702,741	\$1,651,325	\$1,583,391	\$1,505,302	\$1,421,377	\$1,405,886	\$1,375,060	\$1,284,787	\$1,230,957	\$1,163,410
<i>Expressed as a percent of the total</i>	%	%	%	%	%	%	%	%	%	%
Personal Services and Benefits	61.6	60.9	62.0	63.3	64.2	65.5	65.3	65.3	65.5	64.2
Supplies and Services	27.6	28.5	28.1	26.1	25.0	24.4	24.7	24.6	24.6	25.7
Scholarships and Fellowships	3.9	3.7	3.1	3.4	3.6	3.0	2.8	2.8	3.0	3.5
Depreciation	6.9	6.9	6.8	7.2	7.1	7.1	7.1	7.3	6.9	6.6
Total Operating Expenses by Natural Classification	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>Percentage increase (decrease) from prior year</i>	%	%	%	%	%	%	%	%	%	%
Personal Services and Benefits	4.3	2.4	3.0	4.4	(0.9)	2.5	7.1	4.0	7.9	N/A
Supplies and Services	(0.4)	6.1	13.1	10.6	3.8	0.8	7.4	4.7	1.1	N/A
Scholarships and Fellowships	10.1	23.6	(4.5)	(1.3)	22.1	9.3	9.0	(4.8)	(7.0)	N/A
Depreciation	3.0	5.4	(0.2)	6.5	1.6	1.6	4.3	10.8	10.3	N/A
Total Operating Expenses by Natural Classification	3.1	4.3	5.2	5.9	1.1	2.2	7.0	4.4	5.8	N/A

ACADEMIC YEAR TUITION AND REQUIRED FEES

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Resident Undergraduate										
University of Arizona	\$ 10,391	\$ 10,035	\$ 10,035	\$ 8,237	\$ 6,842	\$ 5,542	\$ 5,048	\$ 4,766	\$ 4,498	\$ 4,098
percent increase from prior year	3.5%	0.0%	21.8%	20.4%	23.5%	9.8%	5.9%	6.0%	9.8%	13.7%
PAC12 Public Average	\$ 10,150	\$ 10,294	\$ 9,831	\$ 8,990	\$ 7,803	\$ 6,811	\$ 6,322	\$ 5,809	\$ 5,539	\$ 5,238
percent increase from prior year	-1.4%	4.7%	9.4%	15.2%	14.6%	7.7%	8.8%	4.9%	5.7%	10.5%
ABOR Peers Average	\$ 11,130	\$ 11,012	\$ 10,659	\$ 9,855	\$ 8,928	\$ 8,435	\$ 7,917	\$ 7,489	\$ 7,021	\$ 6,517
percent increase from prior year	1.1%	3.3%	8.2%	10.4%	5.9%	6.5%	5.7%	6.7%	7.7%	12.8%
Non-Resident Undergraduate										
University of Arizona	\$ 27,073	\$ 26,231	\$ 25,494	\$ 24,597	\$ 22,251	\$ 18,676	\$ 16,282	\$ 14,972	\$ 13,682	\$ 13,078
percent increase from prior year	3.2%	2.9%	3.6%	10.5%	19.1%	14.7%	8.7%	9.4%	4.6%	5.7%
PAC12 Public Average	\$ 27,698	\$ 28,062	\$ 27,510	\$ 26,753	\$ 25,123	\$ 22,812	\$ 21,357	\$ 20,100	\$ 19,008	\$ 18,019
percent increase from prior year	-1.3%	2.0%	2.8%	6.5%	10.1%	6.8%	6.3%	5.7%	5.5%	11.0%
ABOR Peers Average	\$ 29,315	\$ 28,756	\$ 27,918	\$ 26,512	\$ 24,960	\$ 23,500	\$ 22,256	\$ 21,046	\$ 19,826	\$ 18,416
percent increase from prior year	1.9%	3.0%	5.3%	6.2%	6.2%	5.6%	5.8%	6.2%	7.7%	10.3%
Resident Graduate										
University of Arizona	\$ 11,511	\$ 11,122	\$ 10,825	\$ 9,027	\$ 7,632	\$ 6,332	\$ 5,768	\$ 5,452	\$ 4,952	\$ 4,348
percent increase from prior year	3.5%	2.7%	19.9%	18.3%	20.5%	9.8%	5.8%	10.1%	13.9%	12.8%
PAC12 Public Average	\$ 11,710	\$ 11,810	\$ 11,494	\$ 10,321	\$ 9,824	\$ 9,093	\$ 8,516	\$ 7,725	\$ 7,255	\$ 6,869
percent increase from prior year	-0.9%	2.8%	11.4%	5.1%	8.0%	6.8%	10.2%	6.5%	5.6%	10.2%
ABOR Peers Average	\$ 13,031	\$ 12,770	\$ 12,339	\$ 11,515	\$ 10,853	\$ 10,183	\$ 9,440	\$ 8,891	\$ 8,277	\$ 7,737
percent increase from prior year	2.0%	3.5%	7.2%	6.1%	6.6%	7.9%	6.2%	7.4%	7.0%	12.0%
Non-Resident Graduate										
University of Arizona	\$ 27,383	\$ 26,533	\$ 25,787	\$ 24,889	\$ 22,544	\$ 18,969	\$ 16,574	\$ 11,476	\$ 13,932	\$ 13,328
percent increase from prior year	3.2%	2.9%	3.6%	10.4%	18.8%	14.5%	44.4%	-17.6%	4.5%	5.6%
PAC12 Public Average	\$ 24,918	\$ 24,558	\$ 24,051	\$ 22,722	\$ 21,823	\$ 20,513	\$ 19,002	\$ 17,936	\$ 17,625	\$ 17,019
percent increase from prior year	1.5%	2.1%	5.8%	4.1%	6.4%	8.0%	5.9%	1.8%	3.6%	9.2%
ABOR Peers Average	\$ 26,995	\$ 26,456	\$ 25,682	\$ 24,507	\$ 23,465	\$ 22,504	\$ 21,484	\$ 20,797	\$ 19,821	\$ 18,752
percent increase from prior year	2.0%	3.0%	4.8%	4.4%	4.3%	4.7%	3.3%	4.9%	5.7%	11.1%

Source: UA Fact Book

A complete list of the University of Arizona's fifteen ABOR peers can be found at <http://factbook.arizona.edu>

Tuition rates are approved by the Arizona Board of Regents.

PRINCIPAL REVENUE SOURCES

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Tuition and Fees, net	\$ 484,809	\$ 461,580	\$ 410,507	\$ 379,199	\$ 329,586	\$ 269,447	\$ 231,536	\$ 209,521	\$ 193,498	\$ 181,776
percent of total revenue	26%	26%	24%	23%	21%	18%	16%	15%	15%	15%
percent increase (decrease) from prior year	5%	12%	8%	15%	22%	16%	11%	8%	6%	5%
State of Arizona Government										
State and local grants and contracts	\$ 16,054	\$ 17,639	\$ 43,979	\$ 46,244	\$ 31,569	\$ 27,860	\$ 23,483	\$ 20,886	\$ 15,792	\$ 14,181
State appropriations	265,038	254,654	268,533	330,297	330,297	348,941	416,658	389,897	358,046	333,692
Technology and research initiatives funding	23,576	20,773	20,353	19,954	20,102	22,547	28,360	30,744	20,576	21,500
Capital appropriations	14,253	14,253	14,253	14,253	14,253	14,253	14,253	10,901		
State of Arizona Government	\$ 318,921	\$ 307,319	\$ 347,118	\$ 410,748	\$ 396,221	\$ 413,601	\$ 482,754	\$ 452,428	\$ 394,414	\$ 369,373
percent of total revenue	17%	17%	21%	25%	25%	28%	33%	33%	30%	31%
percent increase (decrease) from prior year	4%	(11%)	(15%)	4%	(4%)	(14%)	7%	15%	7%	5%
Federal Government										
Federal grants and contracts	\$ 308,291	\$ 366,363	\$ 362,478	\$ 352,835	\$ 324,919	\$ 303,115	\$ 296,338	\$ 319,497	\$ 326,083	\$ 338,603
Federal fiscal stabilization funds				755	28,313	60,824				
Financial aid grants	76,617	83,064	77,276	80,955	74,308	63,172	58,667	20,225	20,192	21,278
Federal Government	\$ 384,908	\$ 449,427	\$ 439,754	\$ 434,545	\$ 427,540	\$ 427,111	\$ 355,005	\$ 339,722	\$ 346,275	\$ 359,881
percent of total revenue	21%	25%	26%	26%	27%	29%	24%	25%	27%	30%
percent increase (decrease) from prior year	(14%)	2%	1%	2%	0%	20%	4%	(2%)	(4%)	4%
Total from principal revenue payers	\$ 1,188,638	\$ 1,218,326	\$ 1,197,379	\$ 1,224,492	\$ 1,153,347	\$ 1,110,159	\$ 1,069,295	\$ 1,001,671	\$ 934,187	\$ 911,030
percent of total revenue	65%	68%	71%	74%	74%	76%	73%	72%	72%	76%
percent increase (decrease) from prior year	(2%)	2%	(2%)	6%	4%	4%	7%	7%	3%	5%

LONG-TERM DEBT

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
System Revenue Bonds										
and SPEED Revenue Bonds	\$ 788,685	\$ 811,285	\$ 686,090	\$ 637,140	\$ 622,265	\$ 498,650	\$ 319,005	\$ 297,015	\$ 283,445	\$ 242,585
Plus Unamortized Premium/(Discount)	36,311	37,823	26,002	17,787	15,128	16,288	8,866	8,057	8,925	7,298
Less Deferred amount on Refundings*		(8,179)	(5,109)	(3,225)	(3,880)	(4,563)	(5,246)	(5,500)	(6,237)	(6,992)
Net System Revenue Bonds and SPEED Revenue Bonds	\$ 824,996	\$ 840,929	\$ 706,983	\$ 651,702	\$ 633,513	\$ 510,375	\$ 322,625	\$ 299,572	\$ 286,133	\$ 242,891
Certificates of Participation										
Plus Unamortized Premium/(Discount)	\$ 377,990	\$ 400,720	\$ 425,530	\$ 459,951	\$ 475,439	\$ 489,859	\$ 503,723	\$ 517,007	\$ 520,886	\$ 493,419
Less Deferred amount on Refundings*	19,145	20,864	22,878	5,313	5,737	6,161	6,585	7,009	9,938	9,315
	(13,301)	(14,575)	(14,575)	(8,678)	(9,493)	(10,307)	(11,121)	(11,957)	(8,731)	(7,842)
Net Certificates of Participation	\$ 397,135	\$ 408,283	\$ 433,833	\$ 456,586	\$ 471,683	\$ 485,713	\$ 499,187	\$ 512,059	\$ 522,093	\$ 494,892
Total Bonds Payable	\$ 824,996	\$ 840,929	\$ 706,983	\$ 651,702	\$ 633,513	\$ 510,375	\$ 322,625	\$ 299,572	\$ 286,133	\$ 242,891
COPs Payable	397,135	408,283	433,833	456,586	471,683	485,713	499,187	512,059	522,093	494,892
Capital and Operating Leases Payable	37,555	38,543	36,957	38,605	39,877	51,621	54,527	55,609	34,162	40,665
Total	\$ 1,259,686	\$ 1,287,755	\$ 1,177,773	\$ 1,146,893	\$ 1,145,073	\$ 1,047,709	\$ 876,339	\$ 867,240	\$ 842,388	\$ 778,448
Long Term Debt (whole dollars)										
per student FTE	\$ 30,881	\$ 31,943	\$ 30,058	\$ 30,121	\$ 30,860	\$ 29,312	\$ 25,218	\$ 25,144	\$ 24,285	\$ 22,598
per Dollar of State Appropriations and State Capital Appropriations	4.51	4.79	4.16	3.33	3.32	2.88	2.03	2.16	2.35	2.33
per Dollar of Total Grants and Contracts	2.07	1.89	2.08	2.09	2.24	2.24	1.92	2.04	1.98	1.78
Data Used in Above Calculations										
Total Student FTE	40,791	40,314	39,183	38,076	37,106	35,743	34,751	34,491	34,688	34,447
State appropriations and State Capital Appropriations	\$ 279,291	\$ 268,908	\$ 282,786	\$ 344,550	\$ 344,550	\$ 363,194	\$ 430,911	\$ 400,798	\$ 358,046	\$ 333,692
Grants and Contracts	\$ 609,596	\$ 682,620	\$ 566,607	\$ 548,103	\$ 510,868	\$ 468,766	\$ 455,794	\$ 424,882	\$ 425,389	\$ 437,818

* There will no longer be deferred amounts on refunding reported as liabilities due to the implementation of GASB Statement No. 65 beginning in FY 2014.

SUMMARY OF RATIOS – Summary of Composite Financial Index Ratios

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
COMPOSITE FINANCIAL INDEX										
+ Primary Reserve Ratio	0.36	0.34	0.31	0.35	0.34	0.31	0.32	0.33	0.32	0.30
/ Strength Factor	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133	0.133
= Ratio / Strength Factor	2.71	2.56	2.33	2.63	2.56	2.33	2.41	2.48	2.41	2.26
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	0.95	0.89	0.82	0.92	0.89	0.82	0.84	0.87	0.84	0.79
= Ratio 10.00 Cap Subtotal	0.95	0.89	0.82	0.92	0.89	0.82	0.84	0.87	0.84	0.79
+ Return on Net Assets Ratio	9.3%	8.5%	1.4%	10.4%	9.2%	(3.6%)	4.6%	10.3%	5.5%	6.1%
/ Strength Factor	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
= Ratio / Strength Factor	4.65	4.25	0.70	5.20	4.60	(1.00)	2.30	5.15	2.75	3.05
* Weighting Factor	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
= Ratio Subtotal	0.93	0.85	0.14	1.04	0.92	(0.20)	0.46	1.03	0.55	0.61
= Ratio 10.00 Cap Subtotal	0.93	0.85	0.14	1.04	0.92	(0.20)	0.46	1.03	0.55	0.61
+ Net Operating Revenues Ratio	1.4%	3.8%	(0.3%)	4.6%	4.8%	(1.5%)	0.2%	2.7%	0.9%	0.3%
/ Strength Factor	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%	1.30%
= Ratio / Strength Factor	1.08	2.92	(0.23)	3.54	3.69	(1.00)	0.15	2.08	0.69	0.23
* Weighting Factor	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
= Ratio Subtotal	0.11	0.29	(0.02)	0.35	0.37	(0.10)	0.02	0.21	0.07	0.02
= Ratio 10.00 Cap Subtotal	0.11	0.29	(0.02)	0.35	0.37	(0.10)	0.02	0.21	0.07	0.02
+ Viability Ratio	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5
/ Strength Factor	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417	0.417
= Ratio / Strength Factor	1.44	1.20	1.20	1.20	1.20	1.20	1.44	1.20	1.20	1.20
* Weighting Factor	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
= Ratio Subtotal	0.50	0.42	0.42	0.42	0.42	0.42	0.50	0.42	0.42	0.42
= Ratio 10.00 Cap Subtotal	0.50	0.42	0.42	0.42	0.42	0.42	0.50	0.42	0.42	0.42
Composite Financial Index	2.49	2.46	1.35	2.73	2.60	0.94	1.82	2.53	1.88	1.84
Composite Financial Index with 10.00 Cap	2.49	2.46	1.35	2.73	2.60	0.94	1.82	2.53	1.88	1.84

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
PRIMARY RESERVE RATIO										
Unrestricted Net Assets	\$ 373,103	\$ 361,244	\$ 310,258	\$ 293,103	\$ 254,432	\$ 179,821	\$ 157,234	\$ 165,775	\$ 149,522	\$ 101,265
Unrestricted Net Assets										
- Component Units	39,419	33,943	31,686	31,848	28,178	25,095	30,371	27,784	24,484	19,498
Expendable Restricted Net Assets	161,894	124,582	122,904	137,768	127,599	140,375	158,554	133,550	122,003	105,429
Temporarily Restricted Net Assets										
- Component Units	125,534	114,430	105,820	138,951	138,133	141,096	147,555	153,653	148,316	155,679
Investment in Plant										
- Component Units	(31,088)	(30,743)	(29,792)	(29,720)	(26,616)	(14,841)	(15,033)	(15,572)	(14,667)	(12,345)
Expendable Net Assets	\$ 668,862	\$ 603,456	\$ 540,876	\$ 571,950	\$ 521,726	\$ 471,546	\$ 478,681	\$ 465,190	\$ 429,658	\$ 369,526
Operating Expenses	\$ 1,702,741	\$1,651,325	\$ 1,583,391	\$ 1,505,302	\$ 1,421,377	\$ 1,405,886	\$ 1,375,060	\$ 1,284,787	\$ 1,230,957	\$1,163,410
Nonoperating Expenses	50,596	47,643	44,391	50,447	45,077	40,887	41,121	38,426	31,407	26,769
Component Unit Total Expenses	119,033	87,516	129,492	85,761	80,778	74,779	87,471	70,816	72,635	54,688
Total Expenses	\$ 1,872,370	\$ 1,786,484	\$ 1,757,274	\$ 1,641,510	\$ 1,547,232	\$ 1,521,552	\$ 1,503,652	\$ 1,394,029	\$ 1,334,999	\$ 1,244,867
Expendable Net Assets	\$ 668,862	\$ 603,456	\$ 540,876	\$ 571,950	\$ 521,726	\$ 471,546	\$ 478,681	\$ 465,190	\$ 429,658	\$ 369,526
Total Expenses	\$ 1,872,370	\$1,786,484	\$ 1,757,274	\$ 1,641,510	\$ 1,547,232	\$ 1,521,552	\$ 1,503,652	\$ 1,394,029	\$ 1,334,999	\$ 1,244,867
Ratio	0.36	0.34	0.31	0.35	0.34	0.31	0.32	0.33	0.32	0.30
<i>Measures the financial strength of the institution by indicating how long the institution could function using its expendable reserves to cover operations should additional net assets not be available. A positive ratio and an increase amount over time denote strength.</i>										
RETURN ON NET ASSETS RATIO										
Change in Net Assets	\$ 163,058	\$ 138,868	\$ 21,734	\$ 151,930	\$ 122,890	\$ (50,153)	\$ 60,623	\$ 124,132	\$ 63,125	\$ 66,208
Total Net Assets (Beginning of Year)	\$ 1,755,900	\$ 1,629,107	\$1,607,373	\$ 1,455,443	\$ 1,332,553	\$ 1,382,711	\$ 1,322,088	\$ 1,209,185	\$ 1,146,062	\$1,079,854
Ratio	9.3%	8.5%	1.4%	10.4%	9.2%	(3.6%)	4.6%	10.3%	5.5%	6.1%
<i>Measures total economic return. While an increasing trend reflects strength, a decline may be appropriate and even warranted if it represents a strategy on the part of the institution to fulfill its mission.</i>										

SUMMARY OF RATIOS – Continued

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
NET OPERATING REVENUES RATIO										
Income/(Loss) before Capital and Endowment Additions	\$ 18,299	\$ 59,986	\$ (4,057)	\$ 71,226	\$ 69,243	\$ (15,301)	\$ 911	\$ 35,082	\$ 6,762	\$ 3,656
Component Units Change in Unrestricted Net Assets Before Extraordinary or Special Items	5,474	2,257	(162)	3,670	3,083	(5,276)	2,587	3,300	4,986	234
Adjusted Income/(Loss) before Capital and Endowment Additions and Component Units Change in Unrestricted Net Assets Before Extraordinary or Special Items	\$ 23,773	\$ 62,243	\$ (4,219)	\$ 74,896	\$ 72,326	\$ (20,577)	\$ 3,498	\$ 38,382	\$ 11,748	\$ 3,890
Total Operating Revenues	\$1,153,967	\$1,175,364	\$ 1,124,228	\$ 1,058,622	\$ 961,960	\$ 860,049	\$ 806,801	\$ 812,285	\$ 784,693	\$ 769,953
State Appropriation and State related revenues	288,614	275,427	288,886	350,251	350,399	371,488	445,018	420,641	378,622	355,192
Non-capital Gifts and Grants, net	78,287	74,530	96,201	87,355	79,164	78,156	71,348	58,083	51,111	42,156
Financial aid trust	3,154	3,193	3,042	2,972	2,832	2,992	3,113	2,220	692	692
Investment Income/(Loss), net	43,229	20,619	3,386	28,686	18,133	(19,749)	4,176	42,163	25,742	23,301
Component Units Total Unrestricted Revenue	124,081	89,506	107,967	83,484	83,422	69,899	89,924	74,253	77,039	54,241
Adjusted Net Operating Revenues	\$1,691,332	\$1,638,639	\$ 1,623,710	\$ 1,611,370	\$ 1,495,910	\$ 1,362,835	\$ 1,420,380	\$ 1,409,645	\$ 1,317,899	\$1,245,535
Adjusted Income/(Loss) before Capital and Endowment Additions and Component Units Change in Unrestricted Net Assets Before Extraordinary or Special Items	\$ 23,773	\$ 62,243	\$ (4,219)	\$ 74,896	\$ 72,326	\$ (20,577)	\$ 3,498	\$ 38,382	\$ 11,748	\$ 3,890
Adjusted Net Operating Revenues	\$1,691,332	\$1,638,639	\$ 1,623,710	\$ 1,611,370	\$ 1,495,910	\$ 1,362,835	\$ 1,420,380	\$ 1,409,645	\$ 1,317,899	\$1,245,535
Ratio	1.4%	3.8%	(0.3%)	4.6%	4.8%	(1.5%)	0.2%	2.7%	0.9%	0.3%
<i>Measures whether the institution is living within available resources. A positive ratio and an increasing amount over time, generally reflects strength.</i>										
VIABILITY RATIO										
Unrestricted Net Assets	\$ 373,103	\$ 361,244	\$ 310,258	\$ 293,103	\$ 254,432	\$ 179,821	\$ 157,234	\$ 165,775	\$ 149,522	\$ 101,265
Unrestricted Net Assets - Component Units	39,419	33,945	31,686	31,848	28,178	25,095	30,371	27,784	24,484	19,498
Expendable Restricted Net Assets	161,894	124,582	122,904	137,768	127,599	140,375	158,554	133,550	122,003	105,429
Temporarily Restricted Net Assets - Component Units	125,534	114,430	105,820	138,951	138,133	141,096	147,555	153,653	148,316	155,679
Expendable Net Assets	\$ 699,950	\$ 634,201	\$ 570,668	\$ 601,670	\$ 548,342	\$ 486,387	\$ 493,714	\$ 480,762	\$ 444,325	\$ 381,871
University Long Term Debt, net capital leases with CUs	\$1,259,686	\$1,287,755	\$ 1,177,773	\$ 1,146,893	\$ 1,145,073	\$ 1,047,709	\$ 876,339	\$ 867,240	\$ 842,388	\$ 778,448
Component Units Long Term Debt	6,682	8,105	9,344	10,487	9,374	9,109	9,829	10,559	11,265	10,476
Total Adjusted University Debt	\$1,266,368	\$1,295,860	\$ 1,187,117	\$ 1,157,380	\$ 1,154,447	\$ 1,056,818	\$ 886,168	\$ 877,799	\$ 853,653	\$ 788,924
Expendable Net Assets	\$ 699,950	\$ 634,201	\$ 570,668	\$ 601,670	\$ 548,342	\$ 486,387	\$ 493,714	\$ 480,762	\$ 444,325	\$ 381,871
Total Adjusted University Debt	\$1,266,368	\$1,295,860	\$ 1,187,117	\$ 1,157,380	\$ 1,154,447	\$ 1,056,818	\$ 886,168	\$ 877,799	\$ 853,653	\$ 788,924
Ratio	0.6	0.5	0.5	0.5	0.5	0.5	0.6	0.5	0.5	0.5
<i>Measures the ability of the institution to cover its debt as of the statement of net position date, should the institution need to do so. A positive ratio of greater than 1:1 generally denotes strength.</i>										

SUMMARY OF RATIOS – Other Ratios

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
OPERATING MARGIN EXCLUDING GIFTS										
Income (Loss) before Capital and Endowment Additions	\$ 18,299	\$ 59,986	\$ (4,057)	\$ 71,226	\$ 69,243	\$ (15,301)	\$ 911	\$ 35,082	\$ 6,762	\$ 3,656
Capital appropriations	14,253	14,253	14,253	14,253	14,253	14,253	14,253	10,901		
Less: Non-capital Gifts	(78,287)	(74,530)	(96,201)	(87,355)	(79,164)	(78,156)	(71,348)	(58,083)	(51,111)	(42,156)
Less: Net investment return	(43,229)	(20,619)	(3,386)	(28,686)	(18,133)	19,749	(4,176)	(42,163)	(25,742)	(23,301)
Less: Other nonoperating revenue, net	(20,009)	(13,440)	(27,644)	(13,849)	(16,063)	(10,175)	(24,688)	(25,123)	(28,958)	(3,233)

Adjusted Income (Loss) before Capital and Endowment Additions	\$ (108,973)	\$ (34,350)	\$ (117,035)	\$ (44,411)	\$ (29,864)	\$ (69,630)	\$ (85,048)	\$ (79,386)	\$ (99,049)	\$ (65,034)
Total Operating Revenues	\$ 1,153,967	\$ 1,175,364	\$ 1,124,228	\$ 1,058,622	\$ 961,960	\$ 860,049	\$ 806,801	\$ 812,285	\$ 784,693	\$ 769,953
Less: Scholarships and Fellowships	(64,070)	(58,145)	(52,475)	(55,510)	(55,316)	(46,673)	(41,860)	(38,373)	(38,498)	(45,561)
State Appropriation and share of sales tax	288,614	275,427	288,886	350,251	350,399	371,488	445,018	420,641	378,622	355,192
Federal fiscal stabilization funds				755	28,313	60,824				
Financial aid grants	76,617	83,064	77,276	80,955	74,308	63,172	58,667	20,225	20,192	21,278
Grants and contracts (Nonoperating)	108,243	116,510	6,104	6,502	7,357	7,357	6,394			
Financial Aid Trust Funds	3,154	3,193	3,042	2,972	2,832	2,992	3,113	2,220	692	692
Capital appropriations	14,253	14,253	14,253	14,253	14,253	14,253	14,253	10,901		

Adjust Net Operating Revenues less Non-capital Gifts and Grants	\$ 1,580,778	\$ 1,609,666	\$ 1,461,314	\$ 1,458,800	\$ 1,384,106	\$ 1,333,462	\$ 1,292,386	\$ 1,227,899	\$ 1,145,701	\$ 1,101,554
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Adjusted Income (Loss) before Capital and Endowment Additions	\$ (108,973)	\$ (34,350)	\$ (117,035)	\$ (44,411)	\$ (29,864)	\$ (69,630)	\$ (85,048)	\$ (79,386)	\$ (99,049)	\$ (65,034)
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Adjust Net Operating Revenues less Non-capital Gifts and Grants	\$ 1,580,778	\$ 1,609,666	\$ 1,461,314	\$ 1,458,800	\$ 1,384,106	\$ 1,333,462	\$ 1,292,386	\$ 1,227,899	\$ 1,145,701	\$ 1,101,554
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Ratio	(6.9%)	(2.1%)	(8.0%)	(3.0%)	(2.2%)	(5.2%)	(6.6%)	(6.5%)	(8.6%)	(5.9%)
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A more restrictive measure of whether the institution is living within available resources. A positive ratio and an increasing amount over time generally reflect strength.

RESEARCH EXPENSES TO TOTAL OPERATING EXPENSES

Operating Expenses	\$ 1,702,741	\$ 1,651,325	\$ 1,583,391	\$ 1,505,302	\$ 1,421,377	\$ 1,405,886	\$ 1,375,060	\$ 1,284,787	\$ 1,230,957	\$ 1,163,410
Less: Scholarships and Fellowships	(64,070)	(58,145)	(52,475)	(55,510)	(55,316)	(46,673)	(41,860)	(38,373)	(38,498)	(45,561)
Interest on Debt	50,596	47,643	44,391	50,447	45,077	40,887	41,121	38,426	31,407	26,769

Total Adjusted Operating Expenses	\$ 1,689,267	\$ 1,640,823	\$ 1,575,307	\$ 1,500,239	\$ 1,411,138	\$ 1,400,100	\$ 1,374,321	\$ 1,284,840	\$ 1,223,866	\$ 1,144,618
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Research Expenses	\$ 396,680	\$ 435,536	\$ 425,993	\$ 405,271	\$ 395,008	\$ 385,467	\$ 373,943	\$ 351,199	\$ 352,409	\$ 357,209
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Total Adjusted Operating Expenses	\$ 1,689,267	\$ 1,640,823	\$ 1,575,307	\$ 1,500,239	\$ 1,411,138	\$ 1,400,100	\$ 1,374,321	\$ 1,284,840	\$ 1,223,866	\$ 1,144,618
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Ratio	23%	27%	27%	27%	28%	28%	27%	27%	29%	31%
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Measures the institution's research expense to the total operating expenses.

SUMMARY OF RATIOS – Other Ratios

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
NET TUITION PER STUDENT										
Student Tuition and Fees, net	\$ 484,809	\$ 461,580	\$ 410,507	\$ 379,199	\$ 329,586	\$ 269,447	\$ 231,536	\$ 209,521	\$ 193,498	\$ 181,776
Financial Aid Grants	79,770	86,257	80,318	83,927	77,140	66,164	61,780	22,445	20,884	21,970
Less Scholarships and Fellowships	(64,070)	(58,145)	(52,475)	(55,510)	(55,316)	(46,673)	(41,860)	(38,373)	(38,498)	(45,561)
Net Tuition and Fees	\$ 500,509	\$ 489,692	\$ 438,350	\$ 407,616	\$ 351,410	\$ 288,938	\$ 251,456	\$ 193,593	\$ 175,884	\$ 158,185
Net Tuition and Fees	\$ 500,509	\$ 489,692	\$ 438,350	\$ 407,616	\$ 351,410	\$ 288,938	\$ 251,456	\$ 193,593	\$ 175,884	\$ 158,185
Undergraduate, Graduate, and Professional FTE	\$ 40,791	\$ 40,314	\$ 39,183	\$ 38,076	\$ 37,106	\$ 35,743	\$ 34,751	\$ 34,491	\$ 34,688	\$ 34,447
Net Tuition per Student (whole dollars)	\$ 12,270	\$ 12,147	\$ 11,187	\$ 10,705	\$ 9,470	\$ 8,084	\$ 7,236	\$ 5,613	\$ 5,070	\$ 4,592

Measures the institution's net student tuition and fees received per student.

STATE APPROPRIATIONS PER STUDENT

State Appropriations	\$ 265,038	\$ 254,654	\$ 268,533	\$ 330,297	\$ 330,297	\$ 348,941	\$ 416,658	\$ 389,897	\$ 358,046	\$ 333,692
Capital appropriations	14,253	14,253	14,253	14,253	14,253	14,253	14,253	10,901		
Adjusted State Appropriations	\$ 279,291	\$ 268,907	\$ 282,786	\$ 344,550	\$ 344,550	\$ 363,194	\$ 430,911	\$ 400,798	\$ 358,046	\$ 333,692
State Appropriations	\$ 279,291	\$ 268,907	\$ 282,786	\$ 344,550	\$ 344,550	\$ 363,194	\$ 430,911	\$ 400,798	\$ 358,046	\$ 333,692
Undergraduate, Graduate, and Professional FTE	\$ 40,791	\$ 40,314	\$ 39,183	\$ 38,076	\$ 37,106	\$ 35,743	\$ 34,751	\$ 34,491	\$ 34,688	\$ 34,447
State Appropriation per Student (whole dollars)	\$ 6,847	\$ 6,670	\$ 7,217	\$ 9,049	\$ 9,286	\$ 10,161	\$ 12,400	\$ 11,620	\$ 10,322	\$ 9,687

Measures the institution's dependency on state appropriations.

SUMMARY OF RATIOS – Debt Related Ratios

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
EXPENDABLE RESOURCES TO DEBT										
Unrestricted Net Assets	\$ 373,103	\$ 361,244	\$ 310,258	\$ 293,103	\$ 254,432	\$ 179,821	\$ 157,234	\$ 165,775	\$ 149,522	\$ 101,265
Expendable Restricted Net Assets	161,894	124,582	122,904	137,768	127,599	140,375	158,554	133,550	122,003	105,429
Expendable Net Assets	\$ 534,997	\$ 485,826	\$ 433,162	\$ 430,871	\$ 382,031	\$ 320,196	\$ 315,788	\$ 299,325	\$ 271,525	\$ 206,694
Expendable Net Assets	\$ 534,997	\$ 485,826	\$ 433,162	\$ 430,871	\$ 382,031	\$ 320,196	\$ 315,788	\$ 299,325	\$ 271,525	\$ 206,694
Total Adjusted University Debt	\$ 1,259,686	\$ 1,287,755	\$ 1,177,773	\$ 1,146,893	\$ 1,145,073	\$ 1,047,709	\$ 876,339	\$ 867,240	\$ 842,388	\$ 778,448
Ratio	0.4	0.4	0.4	0.4	0.3	0.3	0.4	0.3	0.3	0.3
Measures the ability of the institution to cover its debt using expendable resources as of the statement of net position date.										
TOTAL FINANCIAL RESOURCES TO DIRECT DEBT										
Unrestricted Net Assets	\$ 373,103	\$ 361,244	\$ 310,258	\$ 293,103	\$ 254,432	\$ 179,821	\$ 157,234	\$ 165,775	\$ 149,522	\$ 101,265
Expendable Restricted Net Assets	161,894	124,582	122,904	137,768	127,599	140,375	158,554	133,550	122,003	105,429
Non-expendable Restricted Net Assets	138,512	122,635	113,968	115,307	101,263	94,307	94,610	118,585	106,263	100,077
Total Financial Resources	\$ 673,509	\$ 608,461	\$ 547,130	\$ 546,178	\$ 483,294	\$ 414,503	\$ 410,398	\$ 417,910	\$ 377,788	\$ 306,771
Total Financial Resources	\$ 673,509	\$ 608,461	\$ 547,130	\$ 546,178	\$ 483,294	\$ 414,503	\$ 410,398	\$ 417,910	\$ 377,788	\$ 306,771
Total Bonds, COPs and Capital Leases	\$ 1,259,686	\$ 1,287,755	\$ 1,177,773	\$ 1,146,893	\$ 1,145,073	\$ 1,047,709	\$ 876,339	\$ 867,240	\$ 842,388	\$ 778,448
Ratio	0.5	0.5	0.5	0.5	0.4	0.4	0.5	0.5	0.4	0.4
A broader measure of the ability of the institution to cover its debt as of the statement of net position date.										
DIRECT DEBT TO ADJUSTED CASH FLOW										
Net Cash Used by Operating Activities	\$ (402,380)	\$ (362,458)	\$ (404,778)	\$ (319,362)	\$ (385,905)	\$ (414,248)	\$ (470,716)	\$ (385,799)	\$ (338,509)	\$ (318,074)
State Appropriations and Federal Stabilization Funds	265,038	254,654	268,533	331,052	358,610	409,765	416,658	389,897	358,046	333,692
Share of State Sales Tax - TRIF	23,576	20,773	20,353	19,954	20,102	22,547	28,360	30,744	20,576	21,500
Non-capital Grants and Contracts, Gifts, Other (1)	265,817	274,104	179,581	175,567	189,142	209,509	136,409	58,083	51,111	42,156
Adjusted Cash Flow from Operations	\$ 152,051	\$ 187,073	\$ 63,689	\$ 207,211	\$ 181,949	\$ 227,573	\$ 110,711	\$ 92,925	\$ 91,224	\$ 79,274
Total Adjusted University Debt Outstanding	\$ 1,259,686	\$ 1,287,755	\$ 1,177,773	\$ 1,146,893	\$ 1,145,073	\$ 1,047,709	\$ 876,339	\$ 867,240	\$ 842,388	\$ 778,448
Adjusted Cash Flow from Operations	\$ 152,051	\$ 187,073	\$ 63,689	\$ 207,211	\$ 181,949	\$ 227,573	\$ 110,711	\$ 92,925	\$ 91,224	\$ 79,274
Ratio	8.28	6.88	18.49	5.53	6.29	4.60	7.92	9.33	9.23	9.82
(1) Includes: Financial aid grants, grants and contracts, private gifts, and financial aid trust funds										
Measures the financial strength of the institution by indicating how long (in years) the institution would take to repay the debt using the cash provided by its operations. A decreasing ratio over time denotes strength.										
DEBT SERVICE TO OPERATIONS										
Interest and Fees Paid on Debt and Leases	\$ 50,596	\$ 47,643	\$ 44,391	\$ 50,447	\$ 45,077	\$ 40,887	\$ 41,121	\$ 38,426	\$ 31,407	\$ 26,769
Principal Paid on Debt and Leases	47,605	120,436	241,680	42,572	52,272	41,241	59,645	131,674	97,908	97,994
Less: Principal Paid from Refinancing Activities		(71,115)	(199,835)				(17,970)	(100,595)	(71,585)	(70,595)
Debt Service	\$ 98,201	\$ 96,964	\$ 86,236	\$ 93,019	\$ 97,349	\$ 82,128	\$ 82,796	\$ 69,505	\$ 57,730	\$ 54,168
Debt Service	\$ 98,201	\$ 96,964	\$ 86,236	\$ 93,019	\$ 97,349	\$ 82,128	\$ 82,796	\$ 69,505	\$ 57,730	\$ 54,168
Operating Expenses	\$ 1,702,741	\$ 1,651,325	\$ 1,583,391	\$ 1,505,302	\$ 1,421,377	\$ 1,405,886	\$ 1,375,060	\$ 1,284,787	\$ 1,230,957	\$ 1,163,410
Ratio	5.8%	5.9%	5.4%	6.2%	6.8%	5.8%	6.0%	5.4%	4.7%	4.7%
Measures the institution's dependence on borrowed funds as a source of financing its mission and the relative cost of borrowing to overall expenditures. The ratio measures the relative cost of debt to overall expenses and a declining trend is generally desirable, however the ratio can spike during times of specific funding activity.										

DEBT SERVICE COVERAGE FOR SENIOR LIEN AND SUBORDINATE LIEN SYSTEM REVENUE BONDS

(in thousands of dollars)

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Tuition and Fees, net of scholarship allowance	\$ 484,809	\$ 461,580	\$ 410,507	\$ 379,199	\$ 329,586	\$ 269,447	\$ 231,536	\$ 209,521	\$ 193,498	\$ 181,776
Receipts from Other Major Revenue Sources (Facilities Revenues)	374,153	351,162	339,498	339,520	315,907	305,137	305,881	290,812	271,651	248,632
Net Revenues Available for Debt Service	\$ 858,962	\$ 812,742	\$ 750,005	\$ 718,719	\$ 645,493	\$ 574,584	\$ 537,417	\$ 500,333	\$ 465,149	\$ 430,408
Senior Lien Bonds Debt Service										
Interest on Debt	\$ 24,887	\$ 23,379	\$ 21,030	\$ 22,984	\$ 24,593	\$ 15,437	\$ 14,978	\$ 14,166	\$ 13,433	\$ 11,817
Principal Paid on Debt	22,600	21,895	17,375	24,720	23,860	22,725	21,235	17,440	12,355	11,815
Senior Lien Bonds Debt Service Requirements	\$ 47,487	\$ 45,274	\$ 38,405	\$ 47,704	\$ 48,453	\$ 38,162	\$ 36,213	\$ 31,606	\$ 25,788	\$ 23,632
Coverage	18.09	17.95	19.53	15.07	13.32	15.06	14.84	15.83	18.04	18.21
<i>Bond Resolution Covenant: The Gross Revenues of the University for each fiscal year will be at least 150% of the Maximum Annual Debt Service due in any fiscal year</i>										
Subordinate Lien Bonds Debt Service										
Interest on Debt	\$ 13,362	\$ 11,176	\$ 10,450	\$ 5,586						
Principal Paid on Debt										
Subordinate Lien Bonds Debt Service Requirements	\$ 13,362	\$ 11,176	\$ 10,450	\$ 5,586						
Combined Senior/Subordinate Lien Debt Service	\$ 60,849	\$ 56,450	\$ 48,855	\$ 53,291	\$ 48,453	\$ 38,162	\$ 36,213	\$ 31,606	\$ 25,788	\$ 23,632
Coverage	14.12	14.40	15.35	13.49	13.32	15.06	14.84	15.83	18.04	18.21

Debt Service Assurance Agreement and SPEED Bond Resolution Covenant: The Gross Revenues of the University for each fiscal year will be at least 100% of the annual debt service due on all outstanding parity bonds and subordinate obligations.

ADMISSIONS, ENROLLMENT AND DEGREES EARNED

(Fall Enrollment)

Fall enrollment of fiscal year	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
ADMISSIONS - FRESHMEN										
Applications	26,481	26,329	26,871	26,626	24,625	22,544	21,199	16,609	17,903	20,316
Accepted	20,546	20,251	19,175	20,065	19,207	18,158	16,853	14,293	15,700	17,304
Enrolled	6,881	7,401	7,300	7,025	6,966	6,709	6,569	6,009	5,974	5,725
Accepted as Percentage of Application	78%	77%	71%	75%	78%	81%	79%	86%	88%	85%
Enrolled as Percentage of Accepted	33%	37%	38%	35%	36%	37%	39%	42%	38%	33%
Average SAT scores - Total	1114	1116	1109	1100	1104	1103	1107	1109	1124	1120
Verbal	549	550	547	543	547	526	547	547	557	555
Math	565	566	561	557	561	543	561	563	567	565
ENROLLMENT										
Undergraduate, Graduate and Professional FTE	40,791	40,314	39,183	38,076	37,106	35,743	34,751	34,491	34,688	34,447
Undergraduate, Graduate and Professional Headcount	40,621	40,223	39,236	39,086	38,767	38,057	37,217	36,805	37,036	36,932
Men (Headcount)	19,520	19,264	18,729	18,734	18,440	18,084	17,535	17,455	17,355	17,373
Percentage of Total	48.1%	47.9%	47.7%	47.9%	47.6%	47.5%	47.1%	47.4%	46.9%	47.0%
Women (Headcount)	21,101	20,959	20,507	20,352	20,327	19,973	19,682	19,350	19,681	19,559
Percentage of Total	51.9%	52.1%	52.3%	52.1%	52.4%	52.5%	52.9%	52.6%	53.1%	53.0%
African American (Headcount)	1,266	1,540	1,487	1,438	1,341	1,221	1,142	1,041	1,020	1,002
Percentage of Total	3.1%	3.8%	3.8%	3.7%	3.5%	3.2%	3.1%	2.8%	2.8%	2.7%
White (Headcount)	21,825	22,303	22,485	23,099	23,599	23,476	23,193	23,032	23,662	23,589
Percentage of Total	53.7%	55.4%	57.3%	59.1%	60.9%	61.7%	62.3%	62.6%	63.9%	63.9%
Other (Headcount)	17,530	16,380	15,264	14,549	13,827	13,360	12,882	12,732	12,354	12,341
Percentage of Total	43.2%	40.7%	38.9%	37.2%	35.7%	35.1%	34.6%	34.6%	33.4%	33.4%
DEGREES EARNED										
Bachelor's	6,494	6,351	6,195	5,827	5,914	5,612	5,568	5,613	5,749	5,303
Master's	1,667	1,574	1,569	1,337	1,502	1,418	1,399	1,446	1,479	1,478
Doctoral	450	455	445	471	479	451	461	395	388	398
Professional	404	395	368	353	345	326	354	303	310	312
Total Degrees	9,015	8,775	8,577	7,988	8,240	7,807	7,782	7,757	7,926	7,491

Source: University of Arizona Fact Book, Office of Institutional Research

DEMOGRAPHIC DATA

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Arizona Population	6,626,624	6,553,255	6,482,505	6,413,158	6,343,154	6,280,362	6,167,681	6,029,141	5,839,077	5,652,404
Arizona Personal Income (in millions)	\$ 249,027	\$ 235,781	\$ 227,287	\$ 216,590	\$ 212,873	\$ 226,465	\$ 218,588	\$ 206,958	\$ 188,152	\$ 170,026
Arizona Per Capita Personal Income	\$ 36,823	\$ 35,979	\$ 35,062	\$ 33,773	\$ 33,560	\$ 36,059	\$ 35,441	\$ 34,326	\$ 32,223	\$ 30,080
Arizona Unemployment Rate	6.90%	8.00%	9.50%	10.50%	9.90%	6.00%	3.70%	4.10%	4.70%	5.00%

Sources: U.S. Bureau of Economic Analysis & Arizona Department of Administration and Bureau of Labor Statistics

PRINCIPAL EMPLOYERS

Employer	Calendar Year Ended December 31, 2014			Calendar Year Ended December 31, 2005		
	Full-Time Equivalent Employees	Rank	Percentage of Total County Employment	Full-Time Equivalent Employees	Rank	Percentage of Total County Employment
University of Arizona	11,047	1	2.50%	10,348	2	2.30%
Raytheon Missile Systems	9,933	2	2.20%	10,300	3	2.30%
State of Arizona	9,439	3	2.10%	9,750	4	2.20%
Davis Monthan AFB	8,933	4	2.00%	8,727	5	2.00%
Pima County Government	7,328	5	1.60%	6,767	7	1.50%
Tucson Unified School District	6,525	6	1.40%	7,684	6	1.70%
The University of Arizona Health Network	6,329	7	1.40%			
Fort Huachuca	5,717	8	1.30%	12,250	1	2.80%
Freeport-McMoran Copper	5,600	9	1.20%			
Wal-Mart Stores, Inc.	5,200	10	1.20%	4,595	9	1.00%
City of Tucson				6,757	8	1.50%
Phelps Dodge				4,500	10	1.00%
Total	76,051		16.90%	81,678		18.30%

Source:

Pima County CAFR FY 2005

Arizona Daily Star 200 FY 2014

FACULTY AND STAFF

Fall employment of fiscal year	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
FACULTY										
Full-time	2,297	2,246	2,229	2,160	2,165	2,088	2,055	2,031	1,955	1,947
Part-time	752	776	693	642	591	657	644	588	606	576
Total Faculty	3,049	3,022	2,922	2,802	2,756	2,745	2,699	2,619	2,561	2,523
Percentage Tenured	49.5%	50.0%	51.6%	54.1%	55.8%	56.8%	57.4%	59.1%	59.2%	59.5%
STAFF										
Full-time	7,663	7,506	7,407	7,260	7,168	7,495	7,515	7,378	7,430	7,429
Part-time	4,630	4,770	4,832	4,772	4,472	4,423	4,362	4,469	4,412	4,532
Total Staff	12,293	12,276	12,239	12,032	11,640	11,918	11,877	11,847	11,842	11,961
Total Faculty and Staff	15,342	15,298	15,161	14,834	14,396	14,663	14,576	14,466	14,403	14,484

Source: University of Arizona Fact Book

CAPITAL ASSETS

Fiscal Year Ended June 30	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Academic/Support Facilities	647	622	621	593	584	580	590	587	583	579
Auxiliary Facilities	71	70	71	68	69	63	67	65	61	61
Total	718	692	692	661	653	643	657	652	644	640

Source: UA Capital Improvement Plan from Real Estate Administration



Photo: UA External Relations

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McClelland Hall, Photo: Tim Fuller



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